BA4302 - INTERNATIONAL BUSINESS

UNIT I INTRODUCTION

International business - Definition:

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

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

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

Benefits of international business:

- Causes the flow of ideas, services, and capital around the world
- Offers consumers new choices and greater variety
- Allows the mobility of labor, capital and technology
- Provides employment opportunities
- Reallocates resources and shifts activities to a global level

Assessing corporate globally:

1. Globalization of supply chain

To which the company is accessing the most optimal locations for the performance of various activities. For ex; Toyota

2. Globalization of market presence

To which a company targets customers in all major markets within its industry throughout the world. For ex; IBM

3. Globalization of capital

To which the company is accessing the optimal sources of capital on a worldwide basis. For ex; Hong Kong based internet service provider china.com

4. Globalization of corporate mindset

This dimension refers to the ability of the company to understand and integrate diversity across cultures. For ex; General electric (GE)

One of the most comprehensive indices is the one provided by *A.T Kearney,* a management consultancy and foreign policy magazine.

Each nation's globally is assessed considering four variables, such as;

1. Political engagement

2. Technological connectivity

3. Personal contact

4. Economic integration.

Why study international business?

1. Increasingly, companies are sourcing their human resource requirement globally, Sony corporation.

2. Most of the products we consume everyday are supplied to us by global businesses. We are sure of quality if the products bear such names as Nike, Toyota, Colgate, Gap T-shirt, and the like. To know these brands is to understand international business

3. Managing an international business is major complex than running a domestic business. Global business involves production of goods in facilities located in different countries with resources, human and physical sourced from all parts of the globe and marketing goods and services to users across the globe.

4. The major impact of international business in this area has been impetus on governments to open up their borders to international trade and investment, standardize their systems and procedures, and adopt internationally acceptable values and attitudes.

5. International business executives play a powerful role in determining the relative competitiveness of various countries in the global arena.

Drivers of international business:

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

1. Developing markets have huge markets
2. Many MNC's are locating their subsidiaries in low wage countries to take advantage of low cost production.
3. Changing demographics also adds to increasing globalization
4. Regional trading blocks are adding to the pace of globalization. WTO, EU, NAFTA, MERCOSUR and FTAA are major alliances among countries. Trading blocks seek to promote international business by removing trade and investment barriers.
5. Declining trade and investment barriers have vastly contributed to globalization.
6. The most powerful instrument that triggered globalization is technology.
7. The **Boston consulting group** (2005) has identified five currents of globalization. These currents are;

a) Growth of rapidly developing economics (RDE's)

b) Continuing cost and capital advantages of RDE's

c) Development of talent and capabilities in RDE's

d) Migration of customers to RDE's

e) Emergence of RDE based global competitors.

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

Ripple effects of globalization:

1. Globalization and management
2. Globalization and jobs
3. Globalization and wages

4. Globalization and child labor
5. Globalization and women
6. Globalization and developing countries
7. Inequalities

Difference between international business and domestic business

Business, whether global or domestic, involving buying and selling goods and services. In most case, profit is the driving force behind each transaction. The difference between these two pronounced primarily in the areas of currency, interest rates, inflation, taxation systems, government regulations, language and cultural and economic barriers.

Routes of globalization

A business firm seeking to globalize itself needs to choose one of the several modes of entering cross border markets.

1. **Exports and imports:**

Exports are goods and services produced in one country but marketed in another country. Imports are goods and services produced in one country but bought by another country.

European community (EC) is the world's single largest trading unit, followed by Asia and North America. The majority of this export and import activity is in the area of manufacturing such as industrial machinery, computers, cars, televisions, VCR's and other electronic goods.

2. **Tourism and transportation:**

These are the routes of globalization for such industries as shipping, airlines, hotel and travel agency. Some countries, Greece and Norway for example, depend on international tourism and transportation for employment, profits and foreign exchange earnings

3. **Performance of services:**

International businesses earn money in the form of fees for services rendered. This is particularly true in insurance, banking, rentals, engineering, management services and the like. **Turnkey operations** are typical modes for earning such fees.

Companies also earn fees through **management contracts**, arrangements in which one firm contracts with a foreign corporation or government to manage an entire project or undertaking for a specific period.

4. **Use of assets:**

Licensing and ***franchising*** are the modes which facilitate companies to allow others to use their assets. Under a license agreement, one firm permits another to use its intellectual property for compensation called ***royalty.***

Another route of globalization is ***franchising***, which involves the granting of right by a parent company (the franchiser) to anther (the franchiser) to do business in a prescribed manner.

5. **Direct investment:**

a) Joint venture:

A joint venture is a shared ownership in a foreign business. Generally, the venture is 50-50 ownership in which there are two parties, each of which holds a 50 percent ownership stake and contributes a team of managers to share operating control.

b) Wholly owned subsidiary:

A wholly owned subsidiary can be set up in a foreign market in either of two ways. The company can set up a totally new operation or can acquire an established firm and use the firm to promote its products.

The subsidiary that is established starting from the ground up (i.e., from a green field) is called a ***Greenfield investment.***

Portfolio investment represents a non-controlling interest, return-motivated interest in a company, or a loan to another company.

International business environment

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

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

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

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

The forces:

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

Political environment

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

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

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

Merits of democracy:

1. Need for supportive values
2. Function of free speech
3. Freedom to dissent

Totalitarianism: also called authoritarianism, individual freedom is completely subordinated to the power of the authority of state and concentrated in the hands of one person or in a small group. Societies ruled by a pressure clique – political, economic or military or by a dictator, plus most oligarchies and monarchies – belong to this category. The doctrines of fascism and erstwhile communism are examples of totalitarianism.

Nazi Germany (under Adolf Hitler) and the former soviet union under (under Joseph Stalin) are historic examples of totalitarianism governments. Today, Cambodia, Myanmar, China, Cuba, Congo, and Iraq are prominent examples of totalitarianism governments.

Types of totalitarianism:

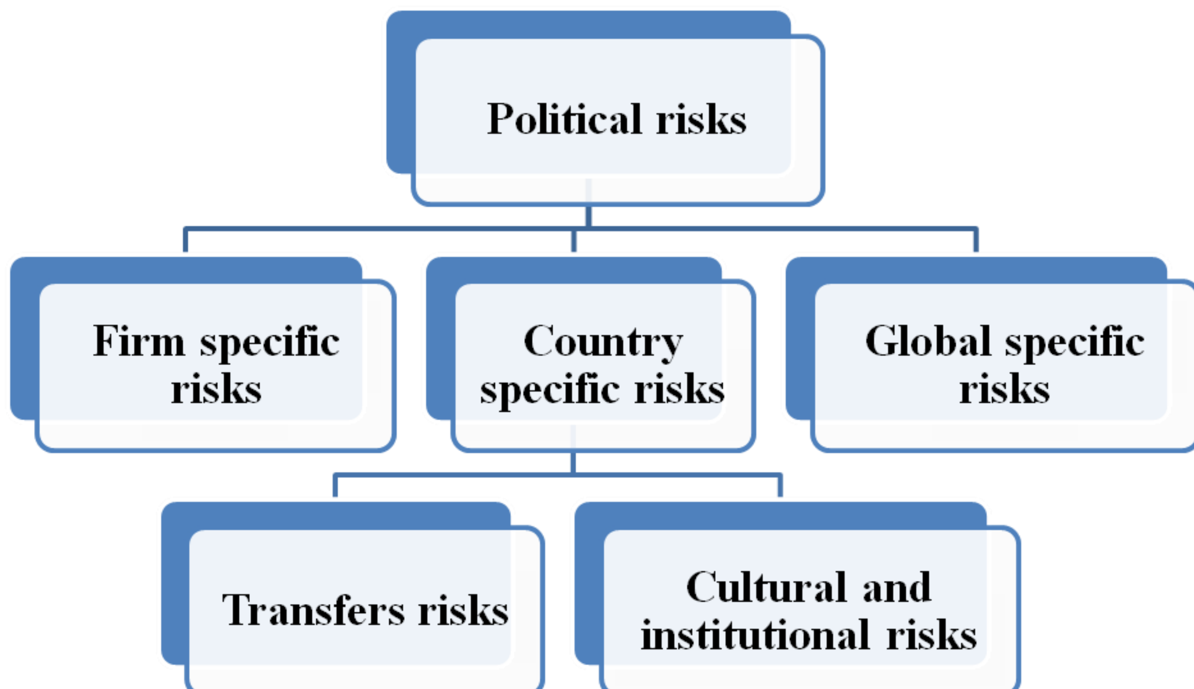
1. Theocratic
2. Secular
3. Tribal
4. Right - wing

Political risk:

Macro risks	Micro risks

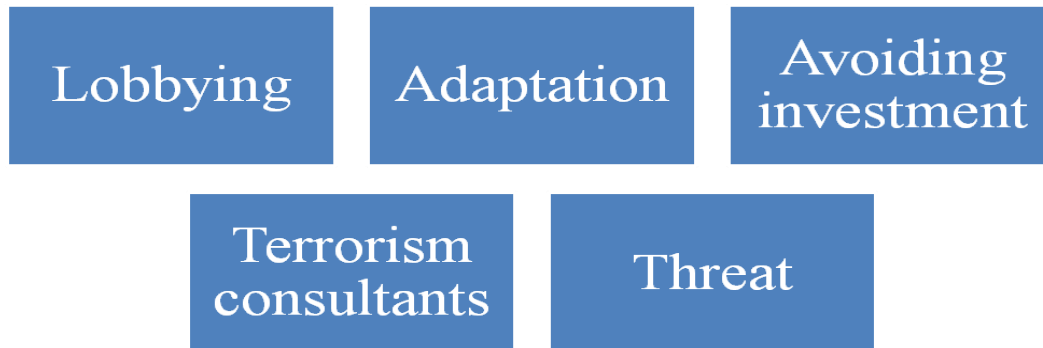
1. Expropriation of corporate assets without prompt and adequate compensation 2. Barriers to repatriation profits 3. Confiscation of properties 4. Loss of technology or other intellectual property 5. Campaigns against foreign goods 6. Civil wars 7. Inflation and currency devaluations 8. Mandatory labour legislations	1. Kidnappings, terrorist, threats, etc 2. Increased taxation 3. Officials dishonesty

Classification of political risks



Firm specific risks	Country specific risks	Global specific risks
• Business risks • Foreign exchange risks • Governance risks	• Ownership structure • HR Norms • Religious heritage • Nepotism & corruption • IPR • Protectionism	• Terrorism and war • Antiglobalization movement • Environmental concerns • Poverty • Cyber attacks

Managing political risks



Legal environment

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

Systems of law:

There are four basic legal systems prevailing around the world.

1. **Islamic law:** derived from the interpretation of the Quran and practiced in countries where Muslims are in majority. Ex: Saudi Arabia, Pakistan, Iran.

2. **Common law:** derived from English law, is prevalent in countries, which were under British influence. Ex: US, Canada, England, Australia.

3. **Civil law or code law:** derived from Roman law, practiced in Germany, Japan, France, and non - Marxist and non - Islamic countries. Ex: Germany, France, Japan.

4. **Marxist legal system:** This has takers in communist countries. Ex: China, Vietnam, North Korea and Cuba.

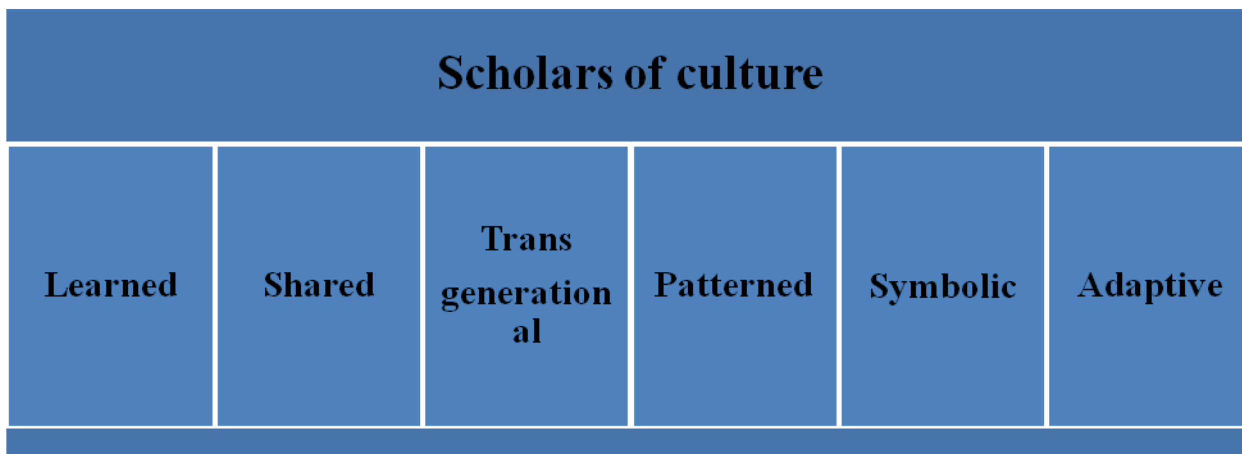
Industrial disputes resolution: Legal disputes can arise in three situations: between governments, between a firm and a government, and between two firms.

Conciliation: also known as mediation, this is a nonbonding agreement between parties to resolve disputes by asking a third party to mediate.
Arbitration: is the preferred method for resolving international commercial disputes. The usual arbitration procedure is for the parties involved to select a disinterested and informed party or parties as referee to determine the merits of the case and make a judgment that both parties agree to honor.

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

Cultural environment:

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



Levels of culture:

1. National culture:

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

2. Business culture:

It also provides the guides for everyday business interactions.

3. Occupational and organizational cultures:

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

4. Mechanistic and organic cultures:

It exhibits the values of bureaucracy and feudalism.

5. Authoritarian and participative cultures:

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

6. Dominant and sub-cultures:

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

7. Strong, Weak and Unhealthy cultures:

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

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

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

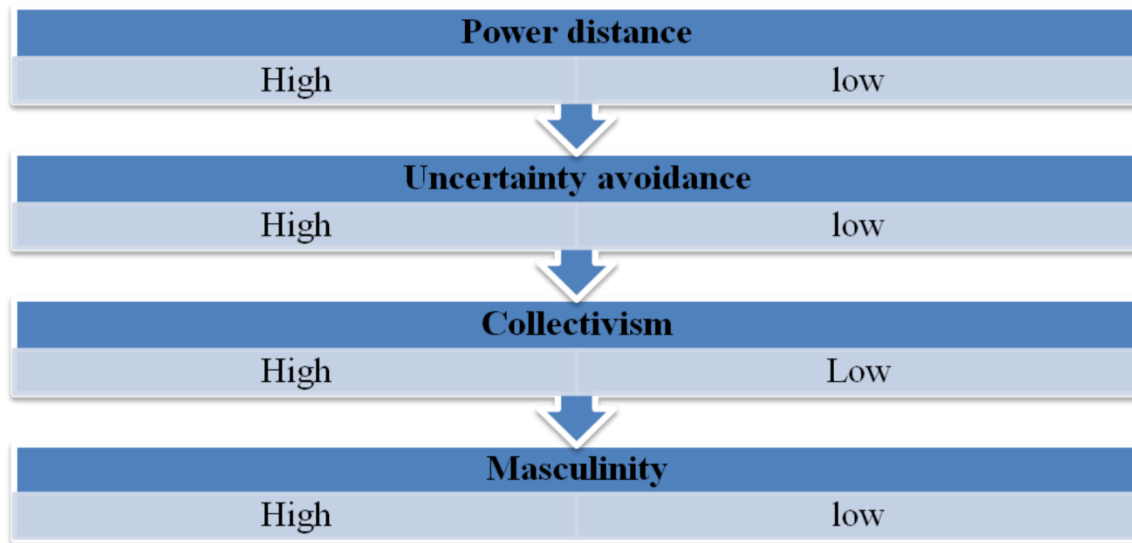
Elements of culture

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

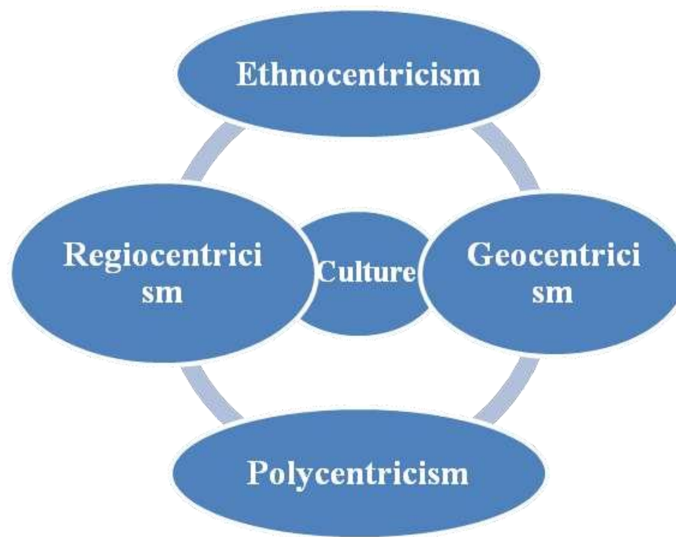
Implications for international business

Multiculturalism: Managing multiculturalism is essential for every international firm.

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



Cultural predispositions



Cultural models:

Hofstede's cultural dimensions:
Trompenaars' 7d model

- Universalism versus particularism
- Individualism versus collectivism
- Neutral versus affective
- Specific versus diffuse
- Achievement versus ascription
- Time dimension
- Internal versus external control

Multicultural management

Technological environment

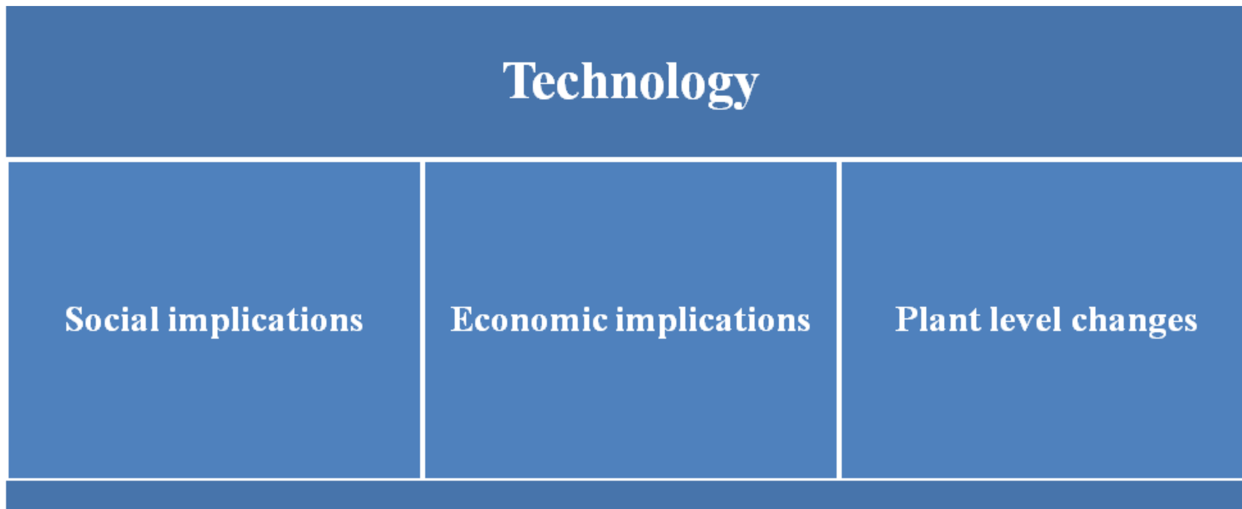
Management of technology involves its categorization, managing the systems that enable the awareness, acquisition, adaptation, advancement, and abandonment.

Classification of technology:

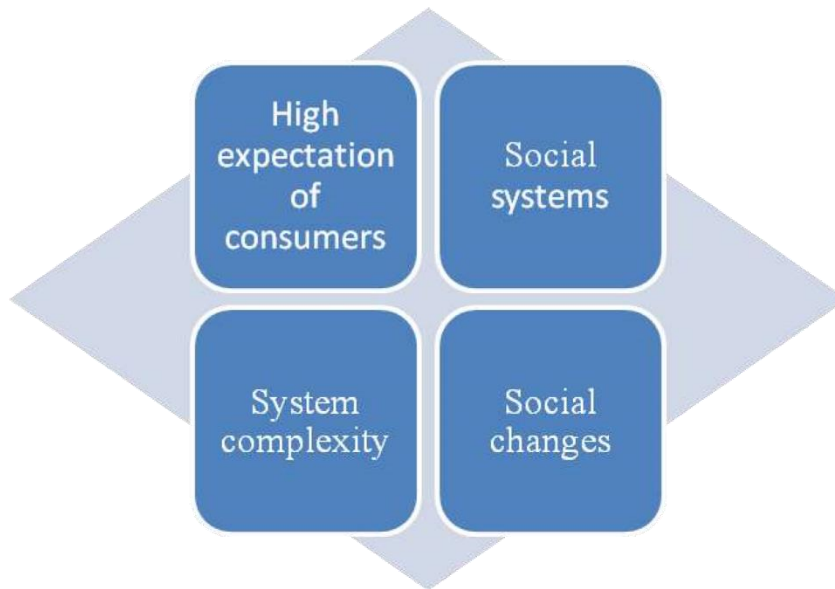
1. State-of-the-art-technologies
2. Proprietary technologies
3. Known technologies
4. Core technologies
5. Leveraging technologies
6. Supporting technologies
7. Pacing technologies
8. Emerging technologies
9. Scouting technologies
10. Idealized unknown basic technologies.

The technology cycle:

1. Awareness phase
2. Acquisition phase
3. Adaptation phase
4. Advancement phase
5. Abandonment phase **Impact of technology:**



Social implications:



Economic implications:

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

Plant level changes:

- Organization structure
- Resistance to change
- Fear of risk
- E-commerce
- Patenting
- Transportation
- Markets

- Technology transfers
- Production
- Others

Operational sequences for technology transfer

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

Economic environment

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

I) Classification on the basis of income:

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

II) Countries classified by economic system:

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

III) Classification of countries by region:

1. East Asia and Pacific
2. Europe and central Asia
3. Latin America and the Caribbean
4. Middle east and North Africa

5. South Asia

6. Sub-Saharan Africa 7. High income countries

IV) Economic scenario:

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

V) Economic policies:

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

Country attractiveness:
A country attractiveness assessment is based on two dimensions

- Market and industry opportunities
- Country risks (many organizations publish country assessment results based on various economic/political/social f actors)

Market opportunities

Market opportunities assessment measures the potential demand in the country for a firm’s products or services based on:

- Market size
- Growth
- Quality of demand.

Industry opportunities

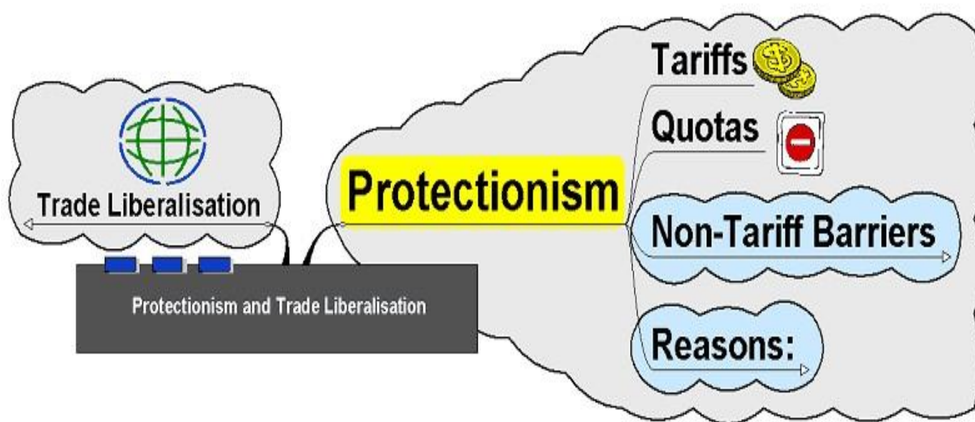
Industry opportunities assessment determines profitability potential of a company presence in a country given the following factors:

- Quality of industry competitive structure(Porters five-force Industry Analysis Framework)
- Resource availability(Porters diamond framework)

Country risk:

- Political risks
- Economic risks
- Competitive risks
- Operational risks

Protectionism and Trade Liberalisation Protectionism:



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

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

Trade Liberalisation

UNCTAD, or the United Nations Conference on Trade and Development, is a key United Nations body dealing with trade, investment, and development issues. Here are some detailed aspects of UNCTAD:

Establishment and Structure: Established in 1964, UNCTAD operates under the United Nations General Assembly and has its headquarters in Geneva, Switzerland. It consists of all 195 member states of the United Nations.

Mandate: UNCTAD's primary mandate is to support developing countries' integration into the world economy in a manner that is conducive to sustainable development. It aims to provide a forum for consensus-building, conducting research, formulating policies, and offering technical assistance to promote economic development.

Areas of Focus:

Trade Facilitation: UNCTAD works to facilitate trade by identifying barriers and providing assistance to countries in improving their trade infrastructure and policies.

Investment and Enterprise: It assists in attracting investment, promotes responsible business conduct, and helps create an enabling environment for entrepreneurship and enterprise development.

Commodities: UNCTAD aims to stabilize commodity markets, enhance commodity value chains, and ensure fair prices and access to markets for commodities produced mainly by developing countries.

Technology and Innovation: It focuses on bridging the technological gap between developed and developing countries, promoting innovation, and supporting technology transfer.

Finance and Development: UNCTAD works on issues related to debt management, financial inclusion, and international financial architecture to support sustainable development.

Sustainable Development Goals (SDGs): It aligns its work with the SDGs to address poverty, inequality, climate change, and other global challenges.

Functions and Activities:

Research and Analysis: UNCTAD conducts in-depth research and analysis on global trade, investment, and development issues. It publishes reports, statistics, and policy recommendations.

Policy Advice: It provides technical assistance and policy advice to member countries, helping them formulate and implement policies that promote sustainable development.
Conferences and Meetings: UNCTAD organizes conferences, forums, and expert group meetings to facilitate discussions among member states, experts, and stakeholders on various economic issues.

Flagship Publications: UNCTAD produces several reports, including the World Investment Report, Trade and Development Report, Economic Development in Africa Report, and Information Economy Report.

Assistance to Developing Countries: It provides technical cooperation, capacity-building, and training programs to help developing countries strengthen their human and institutional capacities in trade, investment, and development-related areas.

Partnerships: UNCTAD collaborates with other UN agencies, international organizations, civil society, academia, and the private sector to achieve its objectives.

UNIT II

Voluntary export restraints (VERs) are agreements between exporting and importing countries to limit the quantity of goods exported to the importing country. Unlike other forms of trade barriers like tariffs or quotas, VERs are voluntary agreements negotiated between governments, often in response to trade tensions or to address specific concerns.

Key points about voluntary export restraints:

Voluntary Nature: As the name suggests, these restraints are voluntary and typically occur when an exporting country agrees to limit its exports to another country or group of countries. They are imposed at the request of the importing country.

Purpose: VERs are often used as a temporary measure to address trade imbalances, protect domestic industries, or alleviate political pressures without resorting to more stringent trade barriers like tariffs or quotas.

Industries and Impact: VERs are often applied to specific industries facing intense competition from imports. For example, a country might request a VER on automobile exports to protect its domestic auto industry.
Negotiation: These restraints are typically negotiated bilaterally between governments and are time-limited. Both parties agree on the quantity or value of goods to be exported within a specified period.

Effects: While VERs might protect the domestic industry in the short term, they can lead to higher prices for consumers and distortions in the market. They can also prompt retaliation from other trading partners or encourage the use of similar tactics by other industries seeking protection.

WTO Compliance: In the context of the World Trade Organization (WTO), VERs fall within the realm of trade-restrictive measures. While they are considered less severe than unilateral trade barriers, they can still run contrary to the principles of free trade promoted by the WTO.

Shifts in Trade Tactics: Over time, countries might move from VERs to other trade measures or negotiations, seeking alternative ways to address trade imbalances or protect domestic industries.

CONTENTS:

- GATT and WTO
- International trade and investment theories
- RTB(Regional trade block)

WTO (World trade organization)

The WTO was established on 1st January 1995. The WTO has larger membership, the present number of member's stands at 151. India is one of the founder members of WTO.

Definition:

The WTO is an international organization designed by its founders to supervise and liberalize international trade. It deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements and a dispute resolution process aimed at enforcing participants

Objectives:

1. Promote trade flows by encouraging nations to adopt nondiscriminatory trade policies.
2. The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.
3. The goal is to help producers of goods and services, exporters, and importers conduct and grow their business.
4. To improve the welfare of the peoples of the member countries.
5. Handling trade disputes and monitoring national trade policies
6. Technical assistance and training for developing countries and cooperation with other international organizations.
7. To ensure optimum utilization of world resources.
8. To protect environment.

The Heckscher-Ohlin theory, developed by Swedish economists Eli Heckscher and Bertil Ohlin in the early 20th century, is an economic theory that seeks to explain patterns of international trade based on differences in factor endowments between countries.

The theory revolves around two main concepts:

Factor Endowments: It refers to the amount of land, labor, capital, and other factors of production that a country possesses. Heckscher and Ohlin proposed that countries have varying factor endowments, which could explain differences in comparative advantage and trade pattern.

Comparative Advantage: Building upon Ricardo's theory of comparative advantage, HeckscherOhlin suggests that countries specialize in producing and exporting goods that require factors of production that they possess in abundance, while importing goods that require factors of production in which they are relatively scarce.

Key propositions of the Heckscher-Ohlin theory:

Factor Abundance and Factor Intensity: A country will tend to export goods that intensively use its abundant factors of production and import goods that use factors of production it lacks.

Factor Price Equalization: Over time, trade should lead to equalization of factor prices between countries. For instance, a labor-abundant country will see an increase in wages for laborintensive industries as it specializes and exports these products.

Trade and Factor Mobility: Trade liberalization and specialization based on factor endowments should ideally lead to efficient allocation of resources and factor mobility, where factors of production (like labor or capital) move to industries where they are most productive.

Assumptions: The theory assumes perfect competition, constant returns to scale, and that factors of production are immobile between countries.

Critiques and Modifications:

Critics argue that real-world conditions often don't meet the theory's assumptions entirely, such as the prevalence of imperfect competition, economies of scale, and differences in technology.

The theory also doesn't account for factors like technological differences between countries, which can significantly impact comparative advantage and trade patterns.
Boxes of WTO

Green box: Not trade distorting

Blue box: Minimally distorting because production is controlled

Amber box: Trade distorting, subsidies tied to either price or production

Red Box: Subsidies that must be stopped (empty box)

WTO: Basic Principles

- Trade without discrimination ○Predictable and growing access to market ○Undistorted, fair competition
- Transparency ○Overseeing national trade policy ○Cooperation with IMF and World Bank
- Expanding trade and production, sustainable development and protection of the environment
- Helping and developing transition economics ○WTO in global economic policy making ○Taking information ○Giving information to public
- Reducing obstacles which facilitates economic growth
- Prohibits quantitative restrictions(QRs) on the exportation and importation of products

Organization structure of the WTO

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

1. Ministerial conference:

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

I) **First ministerial conference** – held in Singapore 1996, primary purpose to initiate an international effort among global trading nations.

II) **Second ministerial conference** - was held in Geneva in Switzerland.

III) **Third ministerial conference** - was held in Seattle in Washington

IV) **Fourth ministerial conference** - was held in Doha in Persian gulf nation of Qatar. V) **Fifth ministerial conference** - was held in Cancun, Mexico.

VI) **Sixth ministerial conference** - held in Hong Kong.

VII) **Seventh ministerial conference -** held in Geneva, Switzerland

2. General council:

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

3. Councils:

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

4. Committee and management bodies:

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

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

Multilateral agreements

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

GATT→ WTO

World Trade Organization: Rounds

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

WTO's Parts

GATT: to reduce trade barriers and to create more comprehensive and enforceable world trade rules.

GATS: General Agreement on Trade in Services (National Treatment for Service Firms)

TRIPs: Agreement is Trade Related Aspects of Intellectual Property Rights (Enforce Patents, Copyrights, and Trademarks)

TRIMs: Agreement on Trade Related Investment Measures, are rules that apply to the domestic regulations a country applies to foreign investors.

WTO's Most Basic Principles

MFN = Most Favored Nation

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

National Treatment

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

GATT-WTO: Comparison

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

GATT (general agreement on tariffs and trade)

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

Basic principles of GATT:

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

Objectives of GATT:

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

Four Terms from Trade Law

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

Trade Agreements

Unilateral Trade Agreement:

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

Bilateral Trade Agreement

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

Multilateral Trade Agreement:

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

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

Plurilateral agreement:

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

Theories of international trade and investment:

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

Classical theories of international trade and investment:

1. Mercantilism theory:

The first theory of international trade emerged in England in the mid 16th century, its principle assertion was that gold and silver were the mainstays of national wealth and essential to vigorous commerce.

2. Classical theories: given by Adam smith and David Ricardo.

The theory explains the condition of international trade specialization and benefits of trade. **A) Absolute advantage theory:**

It explains that a country absolute cost advantage in the production of a product on account of greater efficiency should specialize in its production and export.

B) Comparative cost theory: looks at relative productivity differences, for a country to specialize in the production of those goods that it produces most efficiently and to buy the goods that it produces less efficiently from other countries, even if this means buying goods from other countries that it could produce itself efficiently.

3) Factor proportions trade theory: Heckscher-Ohlin theory: also called the factor endowments theory.

I) Products differ in the types and quantities of factors
(Labor, natural resources and capital)

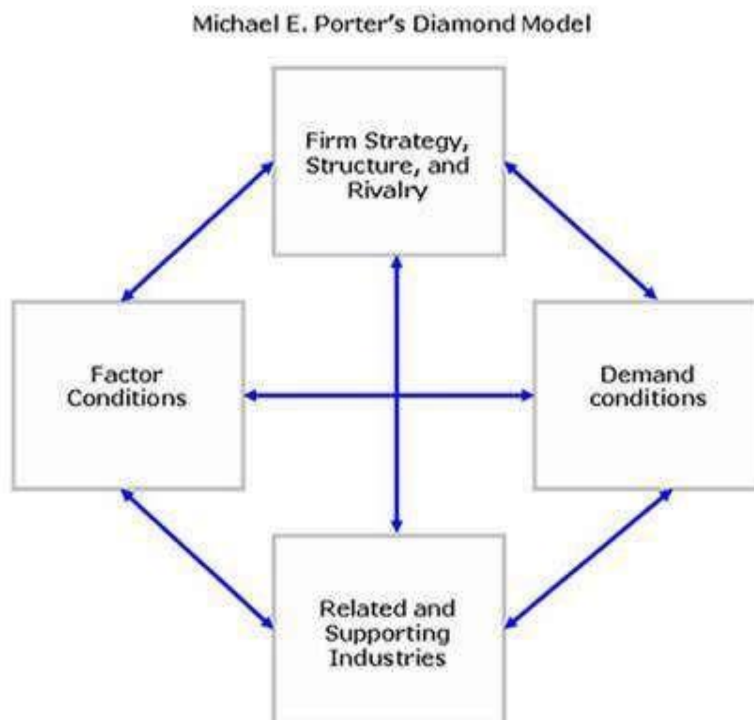
II) Countries differ in the type and quantity of production factors that they possess.

4. **Opportunity cost theory:** propounded by Professor Gottfried Haberler in 1993, the basis of international trade is the differences between nations in the opportunity costs of production of commodities.

5. **Product lifecycle theory:** Raymond Vernon's states that why trade takes place, and why investment occurs, the location of production of certain kinds of products shifts as they go through their life cycles, which consists of four stages – introduction, growth, maturity, and decline.

Contemporary theories: How nations enhance their competitive advantage

1. National competitive advantage theory:



2) National Industrial policy model:

It designed to build new capacity and capabilities share the following:

a) Development and maintenance of strong national infrastructure in areas such as IT, communication systems and transportation.
b) Creation of strong legal and regulatory systems to ensure that citizens are confident about the soundness and stability of the national economy.

3. New trade theory:

The output required to realize economics of scale represent a significant portion of world demand. As a result the organizations that enter the market first, are able to enjoy the first mover advantages like:

a) They are able to establish themselves

b) Capture a significant portion of the world market

c) Are able to achieve competitive advantage on the basis of economics of scale and learning effects(cost savings that accrue due to learning by doing)

Firm internalization

1) Internalization process model: (Internalization process of the firm)

a) **Domestic focus**: acquiring business in the home market.

b) **Pre-export stage**: management investigates the feasibility of undertaking the international business.

c) **Experimental involvement**: in the form of basic exporting.

d) **Active involvement**: through systematic exploration of international options and the commitment of top management time and resources toward achieving international success

e) **Committed involvement**: firm's profit-making and value-chain activities.

2. Born global and international entrepreneurship:

The growing, intensity of international competition, advances in communication and transportation technologies that have reduced the cost of venturing abroad, and the integration of world economics under globalization which makes it easier for companies of all ages and sizes to internalize.

FDI based explanations:

FDI involves the establishment of production or other facilities abroad, either through Greenfield investment (the establishment of new facilities from the ground-up) or cross-border acquisition (the purchase of an existing business in another nation).

1) Monopolistic advantage theory:
It is an approach in international business which explains why firms can compete in foreign settings against indigenous competitors.

The direct investor is a monopolist; foreign direct investment took place because of the product and factor market imperfections.

2) The Internalization Theory

One other financially based theory (**portfolio theory**) was put by Rugman, Agmon and Lessard. These researchers argued that international operations allow for a diversification of risk and therefore tend to maximize the expected return on investment.

3) The Eclectic Paradigm

The eclectic paradigm is developed by *John Dunning* seeks to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country's own enterprises and also that of domestic production owned by foreign enterprises. It identifies some of the more important configurations of the ownership, location and internalization (**OLI**) advantages.

Non-FDI based explanations:

1) International collaborative ventures:

A collaborative venture is a form of cooperation between two or more firms.

Horizontal collaboration: occurs between partners at the same level of the value chain.

For ex: manufacturer-to-manufacturer and supplier-to-supplier relationships.

Vertical collaboration: occurs between partners at different levels of the value chain.

For ex: the relationship between a manufacturer and distributor

2. Networks and relational assets:

Networks and relational assets represent the stock of the firm's economically beneficial long term relationships with other business entities such as manufacturers, distributors, suppliers, retailers, consultants, banks, transportation suppliers, governments and any other organization that can provide needed capabilities.

Relational assets: represent a distinct competitive advantage.

Networks: are actors (buyers and sellers) become bound to one another through ongoing exchanges.

RTB (Regional trade blocks)

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

Characteristics:

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

Types of regional trade blocks:

1. Preferential trading agreement:

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

2. Free trade area:

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

3. Customs union:

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

4. Common market:

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

5. Economic union:

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

6. Political union:

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

Major regional trade blocks/groups:

1. European union :(EU)

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

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

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

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

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

4. SAARC Preferential Trading Arrangement (SAPTA):

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

5. South Asian Free Trade Area (SAFTA):

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

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

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

7) ASEAN Free Trade Area (AFTA):

The major objectives of the AFTA are:

a) To encourage inflow of foreign investment into this region,

b) To establish free trade area in the member countries,

c) To reduce tariff of the products produced in ASEAN countries. AFTA was formed in the year (September 1994).

8) Mercosur:

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

Objectives:

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

9) Asia Pacific Economic Cooperation (APEC):

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

10. European Free Trade Association: (EFTA)

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

11. Latin American Integration Association: (LAIA)

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

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

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

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

13) Andean Pact:

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

14) Central American Common Market and CARRICOM:

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

UNIT III

Frame work for International Strategic Management

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

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

International strategic planning

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

Strategic compulsions

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

International/global strategic management

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

Area of strategic compulsions

1. Orientation for globalization
2. Emerging E-commerce and Internet culture
3. Cut-throat competition
4. Diversification
5. Active pressure groups

6. Motive for corporate social responsibility (CSR) and ethics.

Standardization *versus* Differentiation

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

Perspectives on standardization versus Differentiation:

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

Factors Favoring Standardization and Differentiation

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

Strategic options

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

1. Global strategy

2. International strategy

3. Transactional strategy

4. Multi-domestic strategy

1. Global strategy: It views the world as a single market.Tightly controls global operations from headquarters to preserve focus on standardization.

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

3. Multi-domestic strategy: the international company discovers that differences in markets around the world demand an adaptation of its marketing mix in order to succeed.

4. Transactional strategy: this is company that thinks globally and acts locally. The transactional corporation is much more than a company with sales, investments and operations in many countries.

Factors affecting strategic options:

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

Global portfolio management

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

Factors affecting global portfolio investment:

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

Problems of global portfolio investment:

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

Level of involvement:

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

Modes of entry: Forms of International business I) Exporting as an entry strategy:

1) Exporting:

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

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

b) Direct exporting:

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

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

1) Licensing:

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

2) Franchising:

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

3) Contract manufacture:

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

4) Turnkey projects:

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

5) Managements contracts:

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

III) Manufacturing strategies with FDI:

1) Joint ventures:

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

2) Strategic alliances:

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

3) Merger:

It is a combination (other terms are amalgamation, consolidation or integration) of two or more

organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash.

4) Acquisition:

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

5) wholly-owned subsidiary:

The common reason for operating wholly-owned subsidiary separately from the owner company could be name value.

Often, a well-known and respected corporation is acquired by another entity that has no name recognition in that particular market.

6) Assembly operations:

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

Factors affecting the selection of entry mode

External factors

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

Internal factors

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

Organization structure and design

Organizational structure:

It is the formal arrangement of roles, responsibilities and relationships within an organization. International companies specify the structure that groups, individuals and operational units in ways that managers believe best support the strategy of the firm.

Organizational design:

It deals with structural aspects of organizations; it aims at analyzing roles and responsibilities so that collective effort can be explicitly organized to achieve ends.

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

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

Types of organizational structure

1) International division's structure:

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

2) Functional division's structure:

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

3) Product division structure:

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

4) Geographic (Area) division structure:

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

5) Matrix division structure:

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

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

6) Mixed structure:

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

Controlling of international business

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

Types/Methods of control systems:

1) **Personal controls:** It is control by personal contact with subordinates.

2) **Bureaucratic controls:** The control through a system of rules and procedures that directs the actions of sub-units.

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

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

Approaches to control:

1) Market approach
2) Rules approach
3) Corporate culture approach

Control mechanisms:

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

Process of performance measurement

1) Establish standards of performance
2) Measure actual performance
3) Analyze performance and compare it with standards
4) Construct and implement an action plan
5) Review and revise standards

Performance evaluation system

It can be defined as, “the periodic review of operations to ensure that the objectives of the enterprise are being accomplished”.

Various performance indicators:

1)Financial measures

a) Return on investment(ROI)

b) Budget as a success indicator 2) Non-financial measures.

Types of performance evaluation system

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

UNIT IV

Global production and supply chain management:

Global production provides an unparallel opportunity for companies to grow into new markets while at the same time boosting their competitiveness. Companies globalize the production facilities due to the following reasons:

1. Import restrictions
2. Raw material
3. Inputs
4. Human resource
5. Labor laws
6. Logistics management
7. Export
8. Different consumers.

Forces accelerating global production:

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

Global production strategy:

1) When to manufacture and when to outsource?

2) What quantity is anticipated for each product?

Bond between the manufacturing strategy and the business strategy

Location decision in global production

1. Country factors
2. Technological factors
3. Product factors **Scale of operation:**

This involves deciding exactly what goods and services should be produced at that location (i.e. the variety of its output) and what quantities of those goods and services should be produced (i.e. the volume of its output)

Cost production:

1) Labor costs
2) Capital costs and depreciation
3) Cost of materials

Make or buy decision:

This decision relates to two aspects:

1. What tasks and functions should be performed within the firm and which ones should be source to outside suppliers?
2. What type of relationship should be developed with the supplying companies for the activities it outsources to other firms?

Global supply chain management

According to Jones and Riley; "Supply chain managementdeals with the total flow of material from supplier through end user.

Approaches to globalization:

1. Multinational firm
2. International firm
3. Global firm
4. Transnational firm

Global supply chain strategy:

1) Multi domestic supply chains
2) Multiple international supply chains
3) Global network of supply and demand
4) Flexible, interdependent, balance of locally responsive and globally efficient supply chains

Global diversity:

1) Political
2) Cultural
3) Economic

Global environmental factors:

1. Uncertainty
2. Complexity
3. Asymmetry

Supply chain processes:

1. CRM
2. Customer service management
3. Demand management
4. Customer order fulfillment
5. Manufacturing flow management
6. Procurement management/ supplier relationship management
7. Product development and commercialization
8. Returns management

Quality characteristics:

Technical: length, frequency, diameter, viscosity etc

Psychological: sensory qualities such as taste, **odor and** beauty

Time based items: reliability, maintainability

Contractual: guarantee, safety

Ethical: honesty and integrity etc

Quality considerations:

1) Control by employees
2) Control by sampling
3) Control by monitoring complaints
4) Correcting deficiencies

TQM: (Total quality management)

According to ISO 8402, quality management can be defined as follows; " all activities of the overall management function that determine the quality policy, objectives and responsibilities and implement them by means such as quality planning, quality control, quality assurance and quality improvement within the quality system.

Globalization of markets

It refers to the process of integrating and merging of the distinct world markets into a single market. It includes the identification of common norms, value, taste, preference, convenience and slowly enables the cultural shift towards the use of a common product or service.

Features of globalization of markets:

1. Size of the company does not matter
2. Distinctions of national markets still exist
3. Foreign markets are the markets of non-consumer goods
4. Competition among global firms

Reasons for globalization of markets:

1. Mass production
2. Risk reduction
3. Increase profits
4. Adverse business conditions of home country
5. To cater the demand of the foreign market
6. Unfulfilled needs of the customers by the domestic companies

Characteristics of global marketing:

1. Large scale operations
2. Dominance of multinationals
3. International restrictions and trading blocs
4. Sensitive character
5. Marketing research
6. Importance of advanced technology
7. Long term planning

Functions in global marketing:

1) Choosing the basic route
2) Market selection and product selection
3) Selection of distribution channels
4) Pricing
5) Marketing communications
6) Mastering the procedural complexities
7) Organizational adaptations 8)Handling business ethics

Global marketing strategies:

1. Marketing orientation

- Production orientation Sales orientation
- Customer orientation
- Strategic marketing orientation
- Societal marketing orientation

2. Targeting and segmenting markets

Global/International marketing orientation:

Marketing-mix decisions

Product policy:

It can be termed as long-term planning and management of its product-mix by a marketing company in order to achieve maximum consumer satisfaction.

Objectives:

1. Survival
2. Flexibility
3. Growth
4. Maximum resource utilization

Reasons for making product alterations:

1. Legal reasons
2. Cultural reasons
3. Economic reasons

Product mix (also called product assortment):

It is a set of all product lines and items that a particular seller offers for sale to buyers. It has four main

Characteristics;

1. Product length
2. Product width
3. Product depth
4. Product consistency

Product development:

According to William J. Stanton, “Product development encompasses the technical activities of product research,engineering and design

Factor contributing to product development:

1) Changing customer preferences
2) Technological changes
3) International laws and government policy
4) Product life cycle(PLC)

Challenges in product development:

1) Innovative imperative
2) New product success
3) New product failure

Pricing:

It refers to the value determination process for a good or service and encompasses the determination of interest rates for loans, charges for rentals, fee for services and prices for goods. **Global pricing strategies:**

1. **Skimming strategies:** refers to the firm’s desire to skim the market by selling at a premium price.
2. **Penetration pricing strategies:** it uses deliberate low prices to stimulate market growth and capture market share.
3. **Differential pricing strategies:** involves a firm differentiating its price across different market segments.
4. **Geographic pricing strategies:** a firm may charge a premium in one market, penetration price in another market and a discounted price in the third.

5. **Product line pricing strategies:** are a set of pricing strategies, which a multi-product firm can usefully adopt.

i) Price bundling ii) Premium

pricing iii) Image pricing iv)

Complementary pricing

v) Captive pricing strategy vi) Loss leader

strategy

vii) Two-part pricing.

Global pricing issues:

1) Government interventions
2) Greater market diversity
3) Price escalation in exporting
4) Currency value and price changes
5) Fixed versus variable pricing

Distribution:

It is the process of delivering the product to the marketing channels and consumers.

Production and channel management:

A marketing channel can be defined as a group of exchange relationships, which create customer value in acquiring, consuming and disposing of products and services.

Channel members:

Types of intermediaries: indirect channel

a)**Domestic agents:**

i) Agents who look-after the interests of manufacturers:

1) Export broker
2) Manufacturer’s export agent or sales representative

3) Export management company
4) Cooperative exporter
5) Webb - Pomerene association

ii) Agents who look – after the interests of buyers:

1) Purchasing/ Buying agent
2) Country controlled buying agent
3) Resident buyer

b) **Domestic merchants:**

1) Export merchant
2) Export drop shipper
3) Export distributor
4) Trading companies

Types of intermediaries: direct channel

1) Foreign distributor
2) Foreign retailer
3) State controlled trading company
4) End user

Channel decisions:

1. Factors relating to product characteristics
2. Factors relating to market or consumer characteristics
3. Factors relating to company characteristics
4. Factors relating to middlemen considerations
5. Factors relating to environmental characteristics.

International financial management

International financial management is the management of a firm's assets and liabilities considering the global economy in which the firm operates

Scope of international financial management:

1. **Foreign exchange market:** it is the place where money denominated in one currency is bought and sold with money denominated in another currency. It facilitates conversion of currencies, provides credit for international transactions and minimizes exposure to the risks of exchange rate fluctuations.
2. **Currency convertibility:** a country's currency is said to be freely convertible when the country's government allows both residents and non-residents to purchase unlimited amounts of foreign currencies with the local currency.

3. **International monetary system:** every country needs to have its own monetary system and an authority to maintain order in the system. Monetary system facilitates trade and investment.

4. **Balance of payments:** it is a statistical statement that systematically summarizes, for a specified period of time about the financial transactions. The transactions include exports and imports of goods and services, income flows, capital flows and gifts.

5) International financial market: it can be compartmentalized into two segments. One is the international money market which is represented by the flow of short-term funds. Ex:
International banks

On the other hand, the international capital market where medium and long-term funds flow.

Challenges in international financial management:

Following key categories of emerging challenges can be identified:

1) Interrelationships between relevant environmental variables and corporate responses.

2) Adapt finance function to firm's own strategic posture 3) To take in

stride past failures and mistakes.

4) To design specific solutions

5) Knowledge of macro-economic environment

6) Culture

7) Technology

Investment decisions:

A decision to invest in activities in a given country must consider economic, political, cultural and strategic variables. This factor influences the investment decision. The political, economic, legal and cultural environment of a country can influence the benefits, costs and risks of doing business there and thus its attractiveness as an investment site.

There are number of factors that determine the economic attractiveness of a foreign direct investment opportunity.

Capital budgeting:

The fundamental goal of the financial manager is to maximize shareholder's wealth. Shareholders wealth is maximized when the firm, out of a list of prospective investments, selects a combination of those projects that maximize the company's value to its shareholders.

International capital budgeting involves substantial spending(capital investment) in projects that are located in foreign (host) countries, rather than in the home country of the MNC.

Approaches of capital budgeting:

Payback period: it is the length of time required to recover the initial cost of the project.

Net present value:

The NPV of a project is the present value of all cash inflows, including those at the end of the project's life, minus the present value of all cash outflows.

Internal rate of return :(IRR)

The identification of the relevant expected cash flows to be used for the analysis of the proposed project.

Capital budgeting aspects during foreign project assessment:

1. **Project versus parent cash flows:**

Project (E.g. Host country) cash flows must be distinguished from Parent (E.g. Home country) cash flows.

2. **Parent cash flows tied to financing:**

Parent cash flows depend, in part, on financing. Unlike the domestic situation, financing cannot be kept separate from operating cash flows.

3) Foreign exchange forecasts needed: an explicit forecast is needed for future exchange rates.

4) Long-range inflation must be considered 5) Subsidized

financing must be explicitly treated

6) Political risk must be considered.

Country risk analysis:

1) Macro risks:
2) Micro risks

Macro risks:

1. Forced disinvestment
2. Un-welcomed regulation
3. Interface with operations
4. Social strife

Micro risks:

1. Goal conflicts with economic policy
2. Economic policies and goal conflicts of the MNC's

a) Monetary policies and goal conflicts

b) Fiscal policies and the goal conflicts

c) Trade policies and economic protectionism

d) Balance of payment problems

e) Economic development policies and goal conflicts

f) Corruption and bureaucratic delays

Techniques to assess country risk:

1) Debt related factors
2) Balance of payments
3) Economic performance
4) Political instability
5) Checklist approach **Types of country risk:**

1) Political risks
2) Economic risks

3) Competitive risks
4) Operational risks

Political risk – is when international companies fear that the political climate in a foreign country will change in such a way that their operating position will deteriorate.

Types of political risk:

1) General instability risk
2) Ownership risk
3) Operation risk
4) Transfer risk

Managing political risks:

1) Avoiding investment
2) Adaptation
3) Threat
4) Lobbying
5) Terrorism consultants
6) Invaluable status
7) Vertical integration
8) Local borrowing
9) Minimizing fixed investments
10) Political risk insurance

Economic risk:

A country's ability or intention to meet its financial obligations determines its economic risk.

Types of economic risks:

1. Convertibility risk
2. Foreign exchange risk

3. Translation risk

Methods of analyzing economic risk:

1. Quantitative method
2. Qualitative approach
3. Checklist approach

Sources of funds:

1)**Internal sources of funds:**

a)Funds from the parent

- Equity contributions
- Parent/ Direct loans
- Parent guarantees

b) Funds provided by operations

c) Loans from sister subsidiaries

d) Global cash management

e) Multilateral netting

2) External sources of funds:

a) Debt financing

b) Venture capital

c) Equity financing

d) Factoring

e) Forfeiting

f) Equipment leasing

Foreign exchange risk management:

It is designed to preserve the value of currency inflows, investments and loans, while enabling international businesses to complete abroad.

Foreign exchange (Forex) and exchange rate – it is system of trading in and converting the currency of one country into that of another.

Foreign exchange exposure:

1) Transaction exposure
2) Translation exposure 3)Economic exposure.

International human resource management

Definition:

According to "Ivancevich and Glueck" HRM is concerned with the most effective use of people to achieve organizational and individual goals.

It is process of sourcing, allocating, and effectively utilizing human resources in a multinational organization.

Objectives of IHRM:

1. To reduce the risk of international human resource
2. To avoid cultural risks
3. To avoid regional disparities
4. To manage diversified human capital
5. To remain competitive throughout the world

Importance of IHRM:

1. Given globalization of economy, business is crossing country borders to become international business, which is dynamic
2. A large proportion of workforce is located in other countries away from their homes and home countries
3. Finding and nurturing the suitable and capable human resources in the context of high competition at both domestic and international levels are high on the list of priorities of the top managements
4. Quality human resources are a must for implementing global competitive strategies.

Strategic orientation of IHRM:

It can be a source of creating superior value and competitive advantages. Superior human resources can sustain high productivity, competitive advantage and value creation for the international company.

Barriers to effective IHRM:

1) Variation
2) Perception of HR
3) Attitude and actions of headquarters toward HR
4) Resistance to change
5) Cultural differences in learning and teaching styles.

Global challenges in IHRM:

1) Management of cultural diversity
2) Management of complexity of the workforce
3) Management of communication channels
4) Management of divergent economic systems
5) Management of legal and labor relations issues.

Expatriates:

According to Aycan and Kartungo, "Expatriates can be defined as the employees of business and government organizations who are sent by their organization to a related unit in a country which is different from their own, to accomplish a job or organization - related goal for a pre designated temporary time.

In short Expatriate may be;

1. An employee who is working and temporarily residing in a foreign country.
2. They are also called "International Assignees" **Types of**

expatriate assignments:

1. Short - term assignments
2. Developmental assignments
3. Strategic assignments
4. Long - term assignments

Selection of expatriate managers:

1. Identification of potential pool of candidates

2. Assessment of IQ (Intelligent Quotient) competencies of expatriate candidates
3. Cognitive IQ
4. Emotional IQ
5. Political IQ
6. Cultural IQ
7. Organizational IQ
8. Network IQ
9. Innovative IQ
10. Intuitive IQ

3) Determination of learning styles of expatriate candidates

4) Determination of thinking styles of potential expatriate candidates

5) Determination of assignment task and its environments (Internal/External)

6) Assessment of family characteristics

7) Development of repatriation program prior to expatriation

8) Selection of expatriate candidates and assignments

Factors in selection of expatriate managers:

1. Technical competence/ Ability
2. Adaptiveness
3. Leadership ability
4. Cross - cultural suitability
5. Family requirements
6. MNE requirements
7. Country/cultural requirements
8. Language

Expatriate training and development:

Human resource department prepares the whole data about their employees and their abilities to accept the foreign environment, geographic preferences or foreign language qualifications.

1. Training aims to improve current work skills and behavior.
2. It can involve the changing skills, knowledge, attitudes or behavior
3. It may change what employees know, how they work, their attitudes toward work or their interaction with their co-workers or supervisor.
4. It should be considered as a life-long endeavor to learn about other cultures.

Expatriate compensation:

It is the only factor which influences the success and failure of the work assigned at international level to the expatriate.

Types of compensation plans:

1) Home based method
2) Headquarters method
3) Host-based method

Expatriate remuneration plans:

1. The policy should be consistent and fair in its treatment.
2. The policy must work to attract and retain personnel in the areas of greatest need and opportunities.
3. The policy should serve to motivate employees.
4. It should be consistent with the overall strategy, structure, and business needs of the multinational.
5. It must give due consideration to equity and ease of administration.

Key aspects/Elements of Expatriate compensation:

1.Basic pay
2.**Benefits**

3. i) Housing

ii) Utilities

iii) Car iv) Helpers

v) Club subscriptions vi)

Educational benefits

3) Allowances

i) Cost of living allowance (COLA) ii) Relocation

allowance iii) Hardship allowance iv) Separation

allowance

v) Clothing allowance vi) Added

responsibility allowance vii) Home leave allowance

viii) Spouse assistance allowance

UNIT V

Contents

- Conflict in international business
- Negotiation
- International business ethics

Conflict in Organizations

Definition

- Opposition
- Incompatible behavior
- Antagonistic interaction
- Block another party from reaching her or his goals

- **Conflict events**
  - Disagreements
  - Debates
  - Disputes
  - Preventing someone from reaching valued goals

Functional and Dysfunctional Conflict

Functional conflict: works toward the goals of an organization or group

Dysfunctional conflict: blocks an organization or group from reaching its goals

1. Dysfunctional high conflict: what you typically think about conflict

2. Dysfunctional low conflict: A typical view. Levels vary among groups

Functional conflict

- "Constructive Conflict"--Mary Parker Follett (1925)
- Increases information and ideas –Encourages innovative thinking
- Unshackles different points of view
- Reduces stagnation

Dysfunctional high conflict

- Tension, anxiety, stress
- Drives out low conflict tolerant people
- Reduced trust
- Poor decisions because of withheld or distorted information
- Excessive management focus on the conflict

Dysfunctional low conflict

- Few new ideas
- Poor decisions from lack of innovation and information
- Stagnation

– Business as usual

Levels and Types of Conflict

Level of conflict	**Type of conflict**
Organization	Within and between organizations
Group	Within and between groups
Individual	Within and between individuals

Levels and Types of Conflict

Intra-organization conflict

- Conflict that occurs within an organization
- At interfaces of organization functions
- Can occur along the vertical and horizontal dimensions of the organization
    - Vertical conflict: between managers and subordinates
    - Horizontal conflict: between departments and work groups

Intra-group conflict

- Conflict among members of a group
- Early stages of group development
- Ways of doing tasks or reaching group's goals

Intergroup conflict: between two or more groups

Interpersonal conflict

- Between two or more people
- Differences in views about what should be done
- Efforts to get more resources
- Differences in orientation to work and time in different parts of an organization

Intrapersonal conflict - Occurs within an individual

- Threat to a person's values
- Feeling of unfair treatment
- Multiple and contradictory sources of socialization
- Related to the Theory of Cognitive Dissonance and negative inequity

Inter-organization conflict

- Between two or more organizations
- Not competition
- Examples: suppliers and distributors, especially with the close links now possible

Conflict Episodes

Simple conflict episode

Latent conflict

Manifest conflict

Conflict aftermath

Conflict reduction

Latent conflict: antecedents of conflict behavior that can start conflict episode

Manifest conflict: observable conflict behavior

Conflict aftermath

- End of a conflict episode
- Often the starting point of a related episode
- Becomes the latent conflict for another episode

Conflict reduction: lower the conflict level

Latent conflict

The antecedents of conflict

Example: scarce resources
Some latent conflict in the lives of college students

- Parking spaces
- Library copying machines
- Computer laboratory
- Books in the bookstore
- School and other parts of your life
- University policies **Manifest conflict**
- Observable conflict behavior
- Example: disagreement, discussion

Conflict aftermath

- Residue of a conflict episode
- Example: compromise in allocating scarce resources
- leaves both parties with less than they wanted

Perceived conflict

- Become aware that one is in conflict with another party
- Can block out some conflict
- Can perceive conflict when no latent conditions exist
- Example: misunderstanding another person's position on an issue

Felt conflict

- Emotional part of conflict
- Personalizing the conflict
- Oral and physical hostility
- Hard to manage episodes with high felt conflict
- What people likely recall about conflict

Conflict Frames and Orientations

Conflictframe

- Relationship-Task
- Cooperate-Win
- Emotional Intellectual

Conflict frame dimensions

Relationship-Task

- Relationship: focuses on interpersonal relationships
- Task: focuses on material aspects of an episode

Emotional-Intellectual

- Emotional: focuses on feelings in the conflict episode (felt conflict)
- Intellectual: focuses on observed behavior (manifest conflict)

Cooperate-Win

- Cooperate: emphasizes the role of all parties to the conflict
- Win: wants to maximize personal gain

Conflict frames

Limited research results

- End an episode with a relationship or intellectual frame: feel good about relationship with other party
- Cooperation-focused people end with more positive results than those focused on winning

Conflict orientations

Dominance: wants to win; conflict is a battle

Collaborative: wants to find a solution that satisfies everyone

Compromise: splits the differences
Avoidance: backs away

Accommodative: focuses on desires of other party

Reducing Conflict

Lose-lose methods: parties to the conflict episode do not get what they want

Win-lose methods: one party a clear winner; other party a clear loser

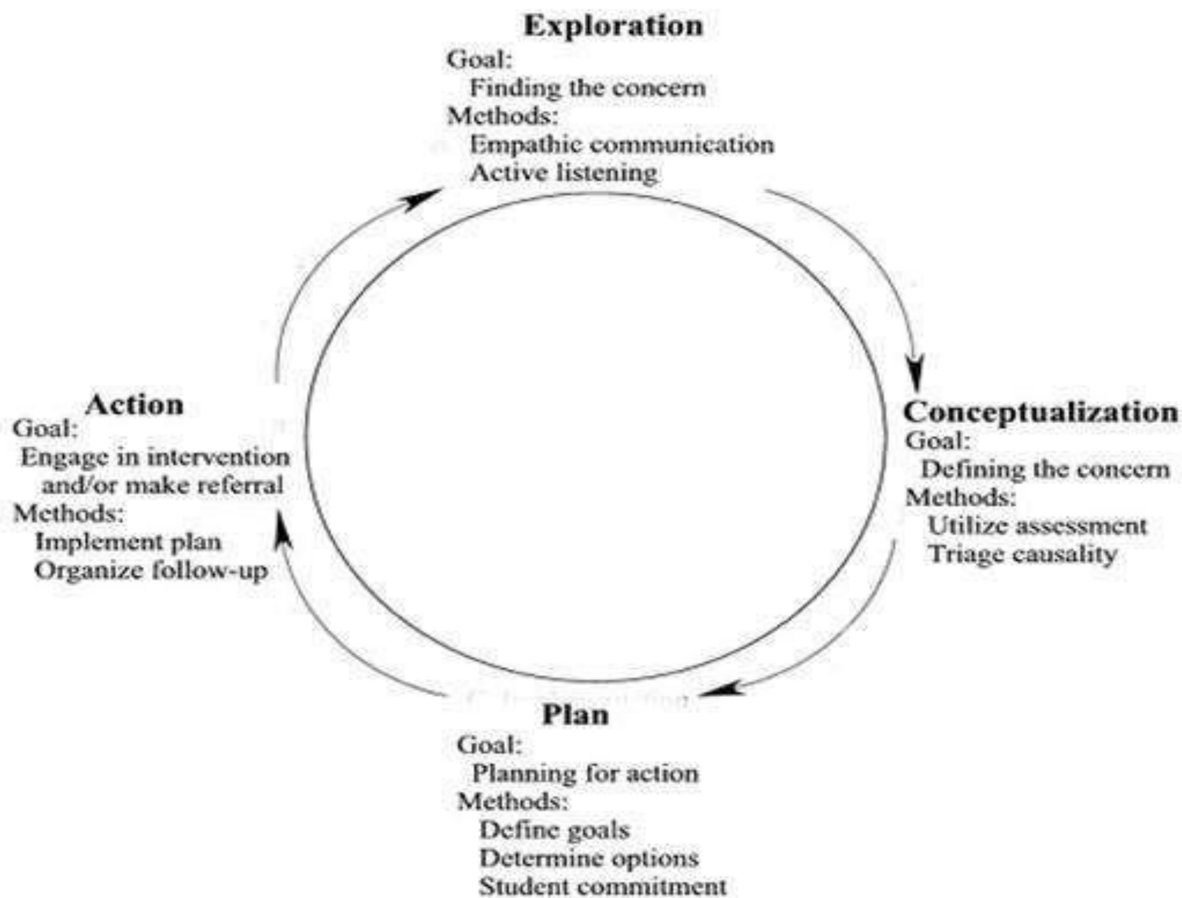
Win-win methods: each party to the conflict episode gets what he or she wants

Summary

Lose-lose methods: **compromise**

Win-lose methods: **dominance**

Win-win methods: **problem solving**



International Business Negotiation

Negotiation is the action and the process of reaching an agreement by means of exchanging ideas with the intention of dispelling conflicts and enhancing relationship to satisfy each other's needs.

Characteristics of negotiation:

(1) Every negotiation involves two or more parties.

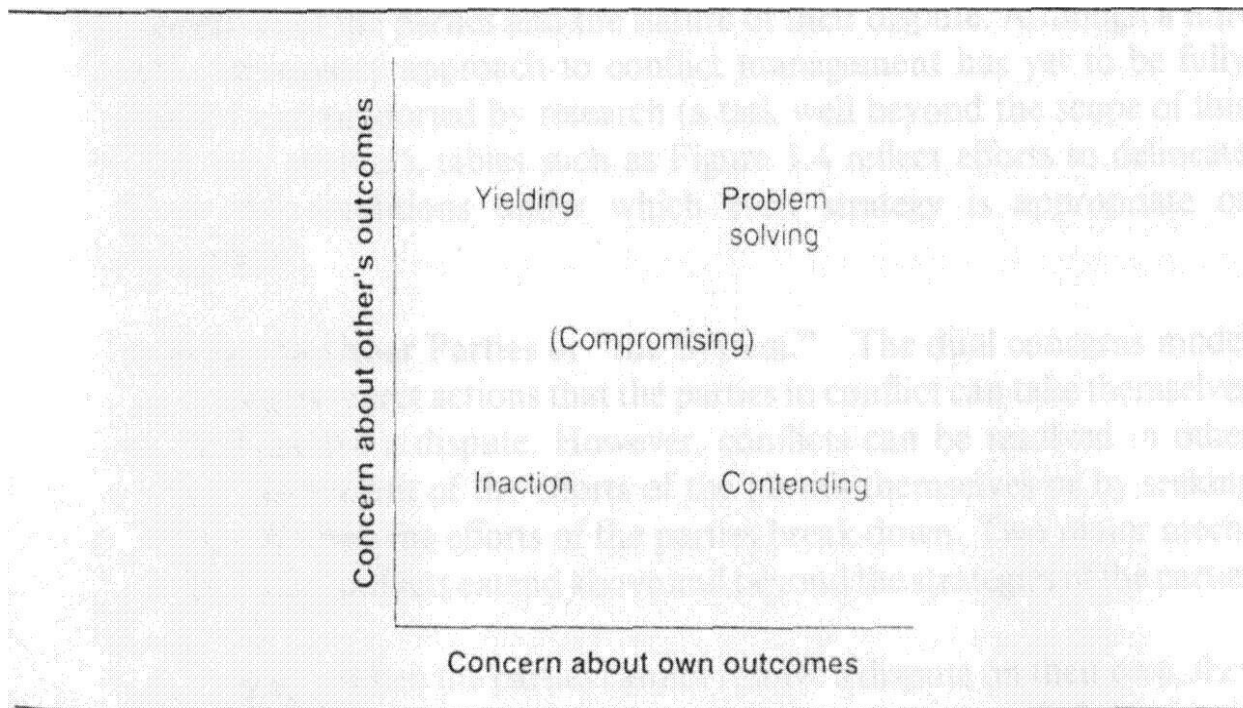
(2) The objective of a negotiation must be definite.

(3) Negotiation must be conducted on an equal basis.

(4) A consensus must be built on the basis of mutual concession.

(5) Negotiation involves exchange of ideas, communication, persuasion, compromise and suchlike (process).

The Dual Concerns Model



Business negotiation is a process of conferring in which the participants of business activities communicate, discuss, and adjust their views, settle differences and finally reach a mutually acceptable agreement in order to close a deal or achieve a proposed financial goal.

Characteristics of Business Negotiation:

(1) The objective of business negotiation is to obtain financial interest

(2) The core of business negotiation is price

(3). Its principle is equality and mutual benefit

(4). Items of contract should keep strictly accurate and rigorous.

Principles of business negotiation:

- Equality principle
- Cooperation principle
- Flexibility principle
- Positions-subjected-to-interests principle
- Depersonalizing principle (Separating the people from the problem)
- Using objective criterion

International Business Negotiation is the business negotiation that takes place between the interest groups from different countries or regions.

Features of International Business Negotiation:

(1) Language barrier

(2) Cultural differences

(3) International laws and domestic laws are both in force

(4) International political factors must be taken into account

(5) The difficulty and the cost are greater than that of domestic business negotiations

Forms of International Business Negotiation:

Classification by chief negotiator

Classification by negotiation object

Classification by form

Classification by procedure

Classification by chief negotiator

(1) Government- to- government's negotiation

(2) Government- to- Business's negotiation

(3) Producer- to- Producer's negotiation

(4) Producer- to- Trader's negotiation

(5) Retailer- to -Producer's negotiation

(6) Business- to- Business's negotiation

(7) Business- to- Consumer's negotiation

Classification by negotiation object

(1)Product trade negotiation

(2)Technology trade negotiation

(3) Service trade negotiation (4) International

project negotiation **Classification by form:**

(1) One- to- one negotiation

(2) Team negotiation

(3) Multilateral negotiation

Classification by procedure

(1) Horizontal Negotiation

(2) Vertical Negotiation **The Basic Forms of**

International Business Negotiation:

Host Court" negotiation and "Guest Court" negotiation Oral negotiation

and written negotiation

Formal and informal negotiation

"Host Court" negotiation and "Guest Court" negotiation:

(1) Host- Court negotiation

(2) Guest- Court negotiation

(3) Changing- Court negotiation

(4) Third- place negotiation

Oral negotiation and written negotiation

(1) Oral negotiation

(2) Written negotiation

Formal and Informal negotiation:

(1) Formal negotiation

(2) Informal negotiation

INTERNATIONAL NEGOTIATION:

- More complex than domestic negotiations
- Differences in national cultures and differences in political, legal, and economic systems often separate potential business partners

STEPS IN THE INTERNATIONAL NEGOTIATION PROCESS

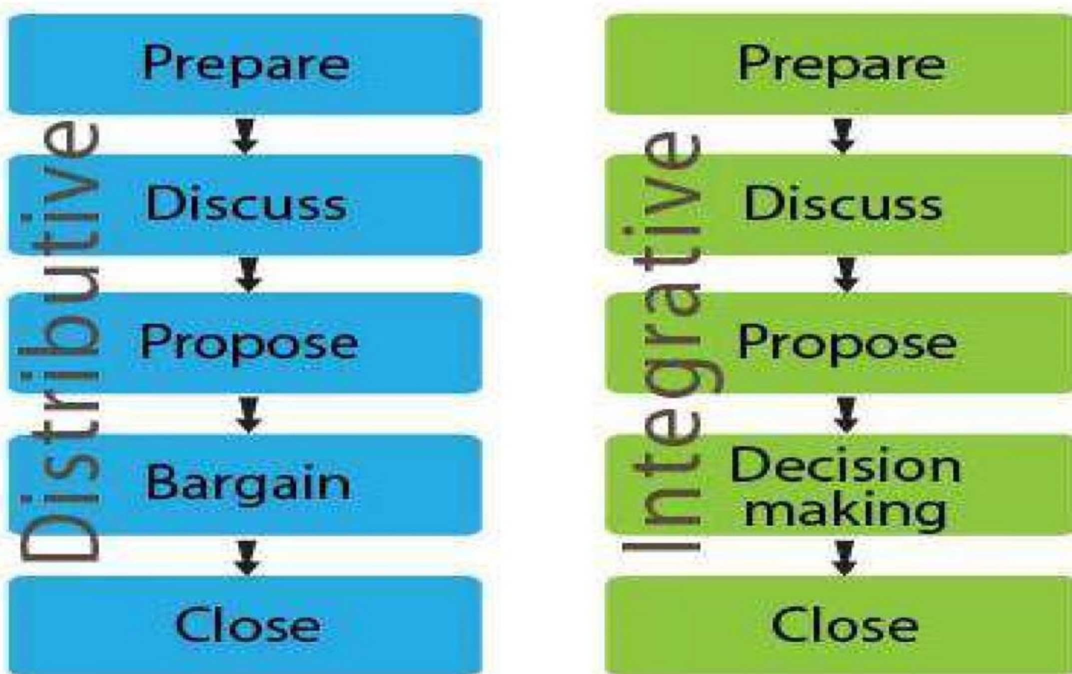
THE SUCCESSFUL INTERNATIONAL NEGOTIATOR: PERSONAL CHARACTERISTICS

- Tolerance of ambiguous situations
- Flexibility and creativity
- Humor
- Stamina
- Empathy
- Curiosity ◆Bilingual

BASIC NEGOTIATION STRATEGIES:

- Competitive
  - The negotiation as a win-lose game
- Problem solving
  - Search for possible win-win situations

	Demand	Offer	Threat
Who?	Who is to make decision	Who benefit if the decision is made	Who get hurt if the decision is not made
What?	Exactly what decision is desired	If the decision is made what benefit / costs can be expected	If the decision is not made what risk / potential benefits can be expected
When?	By what time does the decision have to be made	When if ever will the benefit of making the decision occur?	How soon will the consequences of not making the decision be felt
Why?	What makes this a right, proper & lawful decision?	What makes these consequences fair & legitimate	What make these consequences fair & legitimate



Ethics in International Business Business Ethics:

Business ethics are **principles of right or wrong governing the conduct of business people.**
The text says, "**The accepted principles of right and wrong**" But there are many **differences of opinion** among highly ethical businesspeople.

Ethical Issues in International Business

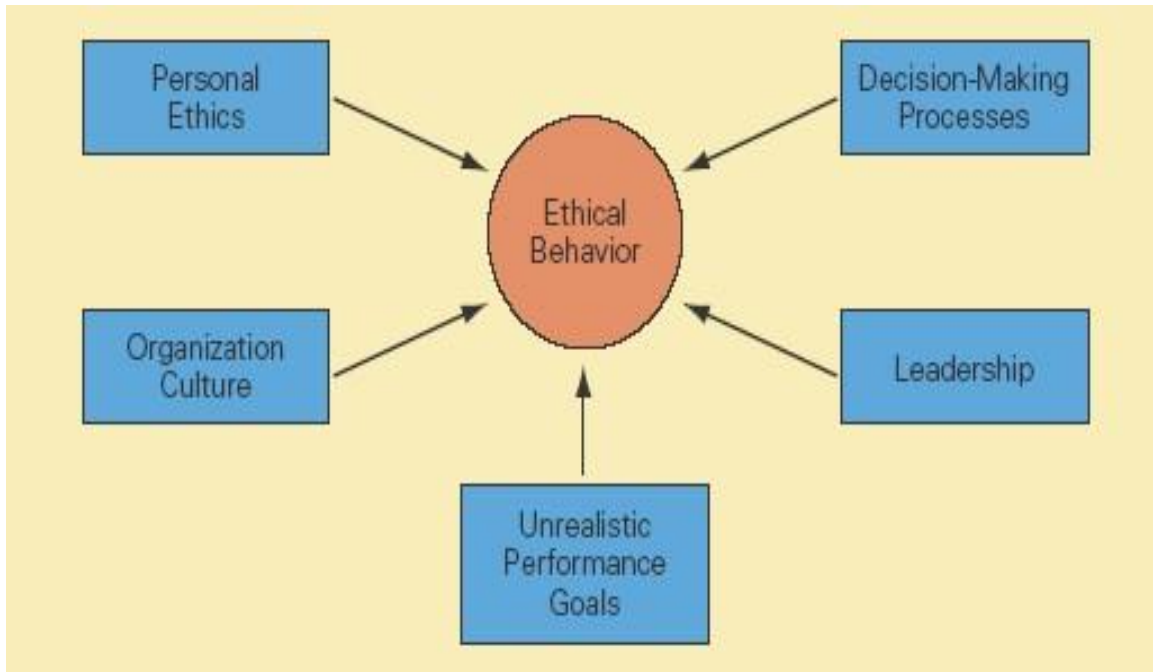
- Many ethical issues and dilemmas are rooted in **differences** in political systems, law,economic development, and culture. Some key ethical issues in international business …
- **Employment Practices**

When work conditions in a host nation are clearly **inferior** to those in a multinational's home nation, **what standards should be applied**? **How much divergence is acceptable?**

Determinants of Ethical Behavior:

- Organization culture
- Personal ethics
- Decision making processes
- Leadership
- Unrealistic / realistic performance goals

The Roots of Unethical Behavior



Ethical Decision Making

Five things that an international business and its managers can **do**

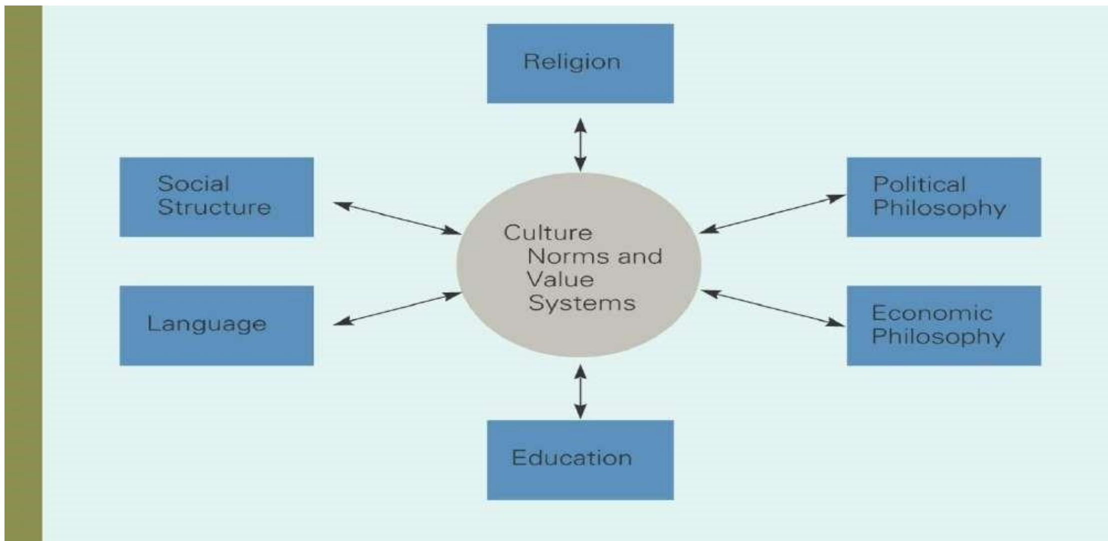
to make sure ethical issues are considered

- Favor **hiring and promoting** people with a well-grounded sense of personal ethics
- Build an **organizational culture that places a high value on ethical behavior**
- Make sure that leaders within the business not only articulate the rhetoric of ethical behavior, but also **act in a manner that is consistent with that rhetoric**
- Implement decision-making processes that **require people to consider the ethical dimension** of business decisions
- Develop **moral courage**

What is culture?

"A system of values and norms that are shared among a group of people and that when taken together constitute a design for living." **Different components of culture:**

- Values: Abstract ideas/assumptions about what a group believes to be good, right and desirable
- Norms: social rules and guidelines that prescribe appropriate behavior in particular situations



- Folkways: Routine conventions of everyday life.
- Little moral significance
- Generally, social conventions such as dress codes, social manners, and neighborly behavior
- Mores*:* Norms central to the functioning of society and its social life
- Greater significance than folkways
- Violation can bring serious retribution, Theft, adultery, incest and cannibalism

Determinants of culture

Improving Global Business Ethics

Seven Moral Guidelines for MNCs

- Inflict no intentional or direct harm
- Produce more good than bad for the host country
- Contribute to host country's development
- Respect the human rights of their employees
- Pay their fair share of taxes
- Respect local cultural beliefs that do not violate moral norms
- Cooperate with the government to develop and enforce background institutions

The Role of Ethics in International Business

International business ethics has a number of open questions and dilemmas. Today it is characterized by the following elements:Every culture and nation has its own values, history, customs and traditions, thus it has developed own ethical values and understanding of ethical principles; There is no international ethical code of conduct, accepted and followed by all the countries; There is a lack of governments' initiative to create ethical cooperation framework and thus to enhance ethical behavior in international business; It is hard to outline those ethical values which would be understandable, acceptable and important for representatives of all the continents simultaneously within different types of international cooperation projects.

Following approach to international business ethics: Every individual and every corporate body must outline its ethical values; Every individual and company should ensure understanding of ethical values and belief in their effectiveness and importance;

Employees of every organization must participate in creating a corporate code of conduct, which in this case definitely represents corporate culture, rather than only personal views of a company's leader;Every individual and company must monitor compliance with the outlined values at all times.

All the ethical values must be divided in two categories – rigid and flexible. Rigid are those values which cannot be renounced under any circumstances (honesty, integrity, professionalism), and flexible ones, which are those moral principles which may be interpreted in different ways in different situations (will to understand other cultures' values, remuneration policies.