BBA-308 INTERNATIONAL BUSINESS MANAGEMENT

Objectives:

The basis objective of this course is to provide understanding to the students with the global dimensions of management.

UNIT I **lectures:-12**

Overview: International Business- Introduction, Concept, Definition, Scope, Trends, Challenges and opportunities; Nature, Meaning and Importance of International competitive advantage, Multidimensional view of Competitiveness- Financial **Perspectives**- International monetary systems and financial markets, IMF, World Bank, IBRD, IFC, IDA, existing international arrangements; Globalization and foreign investment- Introduction FDI, national FDI policy framework, FPI, Impact of globalization.

UNIT II
lectures:-12

Globalization- Technology and its impact, Enhancing technological capabilities, Technology generation, Technology transfer, Diffusion, Dissemination and spill over, Rationale for globalization, Liberalization and Unification of World economics, International Business theories, Trade Barriers- Tariff and NonTariff Barriers.

UNIT III lectures:-12

Strategy making and international business- Structure of global organizations, Types of strategies used in strategic planning for achieving global competitive advantage, Meaning, Concept and scope of distinctive competitive advantage, Financial Integration, Cross border merger and acquisitions.

UNIT IV lectures:-12

Socio cultural Environment- Managing Diversity within and across cultures, Country risk analysis, Macro environmental risk assessment, Need for risk evaluation; Corporate governance, globalization with social responsibility- Introduction, Social responsibility of TNC, Recent development in corporate social responsibility and policy implications. Global Human Resource Management- Selection, Development, Performance Appraisal and compensation, Motivating employees in the global context and managing groups across cultures, Multicultural management.

UNIT -1

Definition of International Business

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

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

INTERNATIONAL BUSINESS

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

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

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

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

International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier. In terms of liberalization, the General Agreement on Tariffs and Trade (GATT) negotiation rounds resulted in trade liberalization, and this was continued with the formation of the World Trade Organization (WTO) in 1995. At the same time, worldwide capital movements were liberalized by most governments, particularly with the advent of electronic funds transfers. In addition, the introduction of a new European monetary unit, the euro, into circulation in January 2002 has impacted international business economically. The euro is the currency of the European Union, membership in March 2005 of 25 countries, and the euro replaced each country's previous currency. As of early 2005, the United States dollar continues to struggle against the euro and the impacts are being felt across industries worldwide.

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

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

DOMESTIC VS INTERNATIONAL BUSINESS

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

THEORIES OF INTERNATIONAL TRADE AND INVESTMENT

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

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

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

THE INTERNATIONAL BUSINESS ENVIRONMENT

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

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

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

Clearly the level of economic activity combined with education, infrastructure, and so on, as well as the degree of government control of the economy, affect virtually all facets of doing business, and a firm needs to understand this environment if it is to operate successfully internationally. The political environment refers to the type of government, the government relationship with business, and the political risk in a country. Doing business internationally thus implies dealing with different types of governments, relationships, and levels of risk. There are many different types of political systems, for example, multi-party democracies, one-party states, constitutional monarchies, dictatorships (military and nonmilitary). Also, governments change in different ways, for example, by regular elections, occasional elections, death, coups, war. Government-business relationships also differ from country to country. Business may be viewed positively as the engine of growth, it may be viewed negatively as the exploiter of the workers, or somewhere in between as providing both benefits and drawbacks. Specific government-business relationships can also vary from positive to negative depending on the type of business operations involved and the relationship between the people of the host country and the people of the home country. To be effective in a foreign location an international firm relies on the goodwill of the foreign government and needs to have a good understanding of all of these aspects of the political environment.

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

The cultural environment is one of the critical components of the international business environment and one of the most difficult to understand. This is because the cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs and values that determine what is right for one group, according to Kluckhohn and Strodtbeck. National culture is described as the body of general beliefs and values that are shared by a nation. Beliefs and values are generally seen as formed by factors such as history, language, religion, geographic location, government, and education; thus firms begin a cultural analysis by seeking to understand these factors.

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

The competitive environment can also change from country to country. This is partly because of the economic, political, and cultural environments; these environmental factors help determine the type and degree of competition that exists in a given country. Competition can come from a variety of sources. It can be public or private sector, come from large or small organizations, be domestic or global, and stem from traditional or new competitors. For the domestic firm the most likely sources of competition may be well understood. The same is not the case when one moves to compete in a new environment. For example, in the 1990s in the United States most business was privately owned and competition was among private sector companies, while in the People's Republic of China (PRC) businesses were owned by the state. Thus, a U.S. company in the PRC could find itself competing with organizations owned by state entities such as the PRC army. This could change the nature of competition dramatically. The nature of competition can also change from place to place as the following illustrate: competition may be encouraged and accepted or discouraged in favor of cooperation; relations between buyers and sellers may be friendly or hostile; barriers to entry and exit may be low or high; regulations may permit or prohibit certain activities. To be effective internationally, firms need to understand these competitive issues and assess their impact.

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

INTERNATIONAL ENTRY CHOICE

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

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

Contracts are used frequently by firms that provide specialized services, such as management, technical knowledge, engineering, information technology, education, and so on, in a foreign location for a specified time period and fee. Contracts are attractive for firms that have talents not being fully utilized at home and in demand in foreign locations. They are relatively short-term, allowing for flexibility, and the fee is usually fixed so that revenues are known in advance. The major drawback is their short-term nature, which means that the contracting firm needs to develop new business constantly and negotiate new contracts. This negotiation is time consuming, costly, and requires skill at cross-cultural negotiations. Revenues are likely to be uneven and the firm must be able to weather periods when no new contracts materialize.

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

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

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

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

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

Features of International Business

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

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

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

4. **Benefits to participating countries**: International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing

(poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.

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

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

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

8. **Sensitive nature**: The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. have a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

Importance of international business

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

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

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

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

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

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

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

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

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

IMF – International Monetary Fund

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

Functions

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

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

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

WORLD BANK

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

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

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

Features of World Bank

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

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

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

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

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

6. **Combat HIV/AIDS, Malaria, and Other Diseases**: Annual numbers of new HIV infections and AIDS deaths have fallen, but the number of people living with HIV continues to grow. In the eight worst-hit southern African countries, prevalence is above 15 percent. Treatment has increased globally, but still meets only 30 percent of needs (with wide variations across countries). AIDS remains the leading cause of death in Sub-Saharan Africa (1.6 million deaths in 2007). There are 300 to 500 million cases of

malaria each year, leading to more than 1 million deaths. Nearly all the cases and more than 95 percent of the deaths occur in Sub-Saharan Africa.

7. **Ensure Environmental Sustainability**: Deforestation remains a critical problem, particularly in regions of biological diversity, which continues to decline. Greenhouse gas emissions are increasing faster than energy technology advancement.

8. **Develop a Global Partnership for Development**: Donor countries have renewed their commitment. Donors have to fulfill their pledges to match the current rate of core program development. Emphasis is being placed on the Bank Group's collaboration with multilateral and local partners to quicken progress toward the MDGs' realization.

IBRD

The International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 188 member countries. IBRD raises most of its funds on the world's financial markets and has become one of the most established borrowers since issuing its first bond in 1947. The income that IBRD has generated over the years has allowed it to fund development activities and to ensure its financial strength, which enables it to borrow at low cost and offer client’s good borrowing terms. The **International Bank for Reconstruction and Development** (**IBRD**) is an international financial institution which offers loans to middle-income developing countries. The IBRD is the first of five member institutions which compose the World Bank Group and is headquartered in Washington, D.C., United States. It was established in 1944 with the mission of financing the reconstruction of European nations devastated by World War II. Together, the International Bank for Reconstruction and Development and its concessional lending arm, the International Development Association, are collectively known as the World Bank as they share the same leadership and staff. Following the reconstruction of Europe, the Bank's mandate expanded to advancing worldwide economic development and eradicating poverty. The IBRD provides commercial-grade or concessional financing to sovereign states to fund projects that seek to improve transportation and infrastructure, education, domestic policy, environmental consciousness, energy investments, healthcare, access to food and potable water, and access to improved sanitation.

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

IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines our policies. Our work in more than a 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. IFC's vision is that people should have the opportunity to escape poverty and improve their lives. The **International Finance Corporation** (**IFC**) is an international financial institution which offers investment, advisory, and asset management services to encourage private sector development in developing countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C., United States. It was established in 1956 as the private sector arm of the World Bank Group to advance economic development by investing in strictly for-profit and commercial projects which reduce poverty and promote development. The IFC's stated aim is to create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private sector entities, and creating jobs and delivering necessary services to those who are poverty-stricken or otherwise vulnerable. Since 2009, the IFC has focused on a set of development goals which its projects are expected to target. Its goals are to increase sustainable agriculture opportunities, improve health and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health.

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

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

IDA

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

The association shares the World Bank's mission of reducing poverty and aims to provide affordable development financing to countries whose credit risk is so prohibitive that they cannot afford to borrow commercially or from the Bank's other programs. The IDA's stated aim is to assist the poorest nations in growing more quickly, equitably, and sustainably to reduce poverty. The IDA is the single largest provider of funds to economic and human development projects in the world's poorest nations. From 2000 to 2010, it financed projects which recruited and trained 3 million teachers, immunized 310 million children, funded $792 million in loans to 120,000 small and medium enterprises, built or restored of 118,000 kilometers of paved roads, built or restored 1,600 bridges, and expanded access to improved water to 113 million people and improved sanitation facilities to 5.8 million people. The IDA has issued a total $238 billion USD in loans and grants since its launch in 1960. Thirty six of the association's borrowing countries have graduated from their eligibility for its concessional lending. However, eight of these countries have relapsed and have not re-graduated. The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.

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

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

FDI

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

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

Importance and barriers to FDI

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

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

Foreign direct investment and the developing world

A recent meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

Difficulties limiting FDI

Foreign direct investment may be politically controversial or difficult because it partly reverses previous policies intended to protect the growth of local investment or of infant industries. When these kinds of barriers against outside investment seem to have not worked sufficiently, it can be politically expedient for a host country to open a small "tunnel" as focus for FDI.

The nature of the FDI tunnel depends on the country's or jurisdiction's needs and policies. FDI is not restricted to developing countries. For example, lagging regions in the France, Germany, Ireland, and USA have for a half century maintained offices to recruit and incentivize FDI primarily to create jobs. China, starting in 1979, promoted FDI primarily to import modernizing technology, and also to leverage and uplift its huge pool of rural workers. To secure greater benefits for lesser costs, this tunnel need be focused on a particular industry and on closely negotiated, specific terms. These terms define the trade offs of certain levels and types of investment by a firm, and specified concessions by the host jurisdiction. The investing firm needs sufficient cooperation and concessions to justify their business case in terms of lower labor costs, and the opening of the country's or even regional markets at a distinct advantage over (global) competitors. The hosting country needs sufficient contractual promises to politically sell uncertain benefits—versus the better-known costs of concessions or damage to local interests. The benefits to the host may be: creation of a large number of more stable and higher-paying jobs; establishing in lagging areas centers of new economic development that will support attracting or strengthening of many other firms without costly concessions; hastening the transfer of premium-paying skills to the host country's work force; and encouraging technology transfer to local suppliers. Concessions to the investor commonly offered include: tax exemptions or reductions; construction or cheap lease-back of site improvements or of new building facilities; and large local infrastructures such as roads or rail lines; More politically difficult (certainly for less-developed regions) are concessions which change policies for: reduced taxes and tariffs; curbing protections for smaller-business from the large or global; and laxer administration of regulations on labor safety and environmental preservation. Often these un-politick "cooperation’s" are covert and subject to corruption.

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

UNIT – 2

GLOBALIZATION

Globalization (or Globalization) is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Globalization describes the interplay across cultures of macro-social forces. These forces include religion, politics, and economics. Globalization can erode and universalize the characteristics of a local group.

Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalization, generating further interdependence of economic and cultural activities.

Technology Transfer

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

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

Technology brokers are people who discovered how to bridge the disparate worlds and apply scientific concepts or processes to new situations or circumstances. A related term, used almost synonymously, is "technology valorization". While conceptually the practice has been utilized for many years (in ancient times, Archimedes was notable for applying science to practical problems), the present-day volume of research, combined with high-profile failures at Xerox PARC and elsewhere has led to a focus on the process itself.

Definition of "Globalization"

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

The Elements of Globalization Specifically Economic Globalization

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

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

<u>Economic</u>

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

International Business theories

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

The absolute advantage theory

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

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

The comparative cost theory

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

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

Opportunity cost theory

The opportunity cost theory was proposed by Gottfried Haberler in 1959. The opportunity cost is the value of alternatives which have to be forgone in order to obtain a particular thing. For example, Rs. 1,000 is invested in the equity of Rama News Limited and earned a dividend of six per cent in 1999, the opportunity cost of this investment is 10 per cent interest had this amount been deposited in a commercial bank for one year term.

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

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

UNIT - III

Trade Barriers- Tariff and Non Tariff Barriers

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

Trade between countries is referred to trade in goods, services and factors of production. Non-tariff barriers to trade include import quotas, special licenses, unreasonable standards for the quality of goods, bureaucratic delays at customs, export restrictions, limiting the activities of state trading, export subsidies, countervailing duties, technical barriers to trade, sanitary and phyto-sanitary measures, rules of origin, etc. Sometimes in this list they include macroeconomic measures affecting trade.

Non-Tariff Barriers to Trade

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

Examples of Non-Tariff Barriers

Non-Tariff Barriers to trade can arise from:

- Import bans
- General or product-specific quotas
- Complex/discriminatory Rules of Origin
- Quality conditions imposed by the importing country on the exporting countries
- Unjustified Sanitary and Phyto-sanitary conditions
- Unreasonable/unjustified packaging, labelling, product standards
- Complex regulatory environment
- Determination of eligibility of an exporting country by the importing country
- Determination of eligibility of an exporting establishment (firm, company) by the importing country.
- Additional trade documents like Certificate of Origin, Certificate of Authenticity etc
- Occupational safety and health regulation
- Employment law
- Import licenses

- State subsidies, procurement, trading, state ownership
- Export subsidies
- Fixation of a minimum import price
- Product classification
- Quota shares

- Multiplicity and Controls of Foreign exchange market
- Inadequate infrastructure
- "Buy national" policy
- Over-valued currency
- Restrictive licenses
- Seasonal import regimes
- Corrupt and/or lengthy customs procedures

STRUCTURE OF GLOBAL ORGANIZATIONS

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

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

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

Managing Cultural Diversity in the Workplace

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

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

What is Corporate Governance?

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

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

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

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.

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

UNIT- IV

Global Human Resource Management- Selection

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

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

Recruitment and Selection

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

Targeted Interview Techniques

In addition ITAP can support your selection process using and teaching you to use Behavior Event Interviewing (BEI) or Targeted Interview (TI) techniques. While not difficult to learn, they are far more effective at identifying exactly what capabilities particular candidates could bring to your organization. This is particularly important when recruiting and selecting across cultures.

Assimilating New Employees

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

Performance Appraisal and compensation

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

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

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

Objectives of Performance Appraisal

Performance Appraisal can be done with following objectives in mind:

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

Advantages of Performance Appraisal

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

1. **Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
2. **Compensation:** Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which include bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.
3. **Employees Development:** The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyze strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.
4. **Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.
5. **Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:
    a. Through performance appraisal, the employers can understand and accept skills of subordinates.
    b. The subordinates can also understand and create a trust and confidence in superiors.
    c. It also helps in maintaining cordial and congenial labour management relationship.
    d. It develops the spirit of work and boosts the morale of employees.

All the above factors ensure effective communication.

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

Compensation

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

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

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

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

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

Managing Groups across Cultures

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

CHARACTERISTICS OF CULTURE

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

MANAGING ACROSS CULTURES

- Understand,
- Appreciate and use cultural factors
- Motivate the employee

- Global mindset

- Strong culture > Employee behavior > reduced turnover

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

MULTICULTURAL MANAGEMENT

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

Multicultural Basics

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

Multicultural vs. Diversity

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

Diversity Management

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

Multicultural Benefits

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

Books Recommended:

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

Website:

1) http://sbaer.uca.edu/publications/international_business/pdf/01.pdf
2) http://pdfcast.org/pdf/what-is-global-business

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

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

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