UNIT 1

1.1 What is International Business?

It is cross border transaction between individuals, businesses, or government bodies for anything such as products and services, technology and knowledge, etc.

International Business **Meaning**

- International business means all monetary dealing between two or more nations, private or public organizations.
- It is a commercial term in which the exchange of goods and services takes place beyond the domestic boundary,

1.2 **Definition** of International Business

"The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants." ***– Stephenson***

"Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted." ***– Dicksee***

1.3 **GOALS / Objectives** of International Business

- Minimize Competitive Risk
- Resource Acquisition
- Sales Expansion
- International Flow of Capital
- Cultural Diversity
- Economies of Scale
- Technology Advancement

- For selling overflow products
- To improve the use of assets.
- To procure unfamiliar trade.
- To expand public pay
- To create business
- To build government incomes
- To make International spots and participation.

1.4 ▶ **Scope** of International Business

The scope of international business is wider than domestic business as it includes the following:

- **Imports and Exports of Merchandise:** Merchandise refers to physical products, such as those that can be seen and felt. Therefore, imports and exports of merchandise mean the transfer or exchange of tangible goods from and to different countries of the world. It is also called trade in goods as it excludes buying and selling of services.
- **Imports and Exports of Services:** Imports and exports of services involve intangible goods that cannot be seen, felt, or touched. It is also known as invisible trade. Services such as tourism and travel, transportation, communication, etc. are imported and exported.
- **Licensing and Franchising:** Licensing is a contractual agreement between two firms, where the licensor (one firm) grants the licensee (another firm), access to trademarks, copyrights, patents, etc. in a foreign country in exchange for a fee. The fee charged by the licensor is known as royalty. For example, Microsoft grants a license to different companies in exchange for royalty.

  Franchising is also similar to licensing. However, it provides services rather than access to patents, etc. For example, Subway has various franchises all over the world where it provides the same services to the customers.
- **Foreign Investment:** It means investing money into a foreign country in exchange for a profit. Foreign investment can be of two types Direct and Portfolio Investment. Direct investment occurs when a firm invests directly in the machinery and plant in another country to produce and market goods and services in that country.

A portfolio investment is a foreign investment where a company buys shares of another company in a different country or lends money to another company. The return on portfolio investment is received in the form of dividends or interest respectively. Other areas include

- Importing and Exporting
- Finding new opportunities
- Licensing
- Joint Ventures
- Strategic Partnerships
- Franchising
- Contract Manufacturing
- Integration of Economies

1.5 ▶ **Nature** of International Business

- Legitimate Purchase
- Limitations
- High Risk
- Diverse Language
- Plan of Foreign Currency
- Contribution of Two Countries
- An installment in Foreign Countries

Legitimate Purchase – Purchasing is the most furious in worldwide business. A ton of legitimate conventions must be satisfied in it, which takes a ton of time. Its strategy incorporates almost 15 to 16 stages, which makes buying chaotic in global business.

Limitations– There are a few limitations to buying in global business in specific regions or upon specific things. We can’t buy from that point due to limitations. There are a few things that you can’t buy from certain areas on account of these limitations.

High Risk – In global business, such organizations put cash in a business in which they know nothing. Along these lines, a little danger is made because of this. It likewise costs more cash to trade merchandise from such a spot, because of which there is a most extreme danger implied in it.

Diverse Language – It involves the clear truth that when you manage another country, you will observe a distinction between their language and your language, which makes it hard to convey. Along these lines, you need to guarantee that you either gain proficiency with their language well or decide on another way, so their words sound good to you since you can not make an effective arrangement until you can't clear them appropriately.

Plan of Foreign Currency – If you are managing an external nation, and need to work with them, then, at that point, you need to make sure that you have cash in the money that they have. So you can carry on with work without any problem.

Contribution of Two Countries – In global business, two nations are incorporated, such that all the time as though anything sends out from India to the USA, there is a distinction in the language and ethnic culture of the two. Because of this, the processor is exceptionally chaotic. Subsequently, the lawful exchange also turns out to be very troublesome in such a case.

An installment in Foreign Countries – In such cases, you need to pay in unfamiliar money as it were. The regardless country you manage, you need to pay in the very money that works there. Then again, if the other nation is managing your country, it needs to pay cash in the money of your country.

1.6 **Types** of International Business

- Import and Export
- Licensing
- Franchising

- Outsourcing and Offshoring
- Joint Ventures and Strategic Partnership
- Multinational Companies
- Foreign Direct Investment (FDI)

Import and Export: Inflow and selling of goods from and to home country from outside.

Licensing: A standardized product with ownership rights can be distributed using licensing.

Franchising: The parent company gives the right to other companies to carry on business in its name.

Outsourcing and Offshoring: It means giving out contracts to international firms for certain business purposes.

Joint Ventures and Strategic Partnership: It is an agreement between two companies (one being an international company) to where the business has to be conducted.

Multinational Companies: The companies that are running businesses in more than one country.

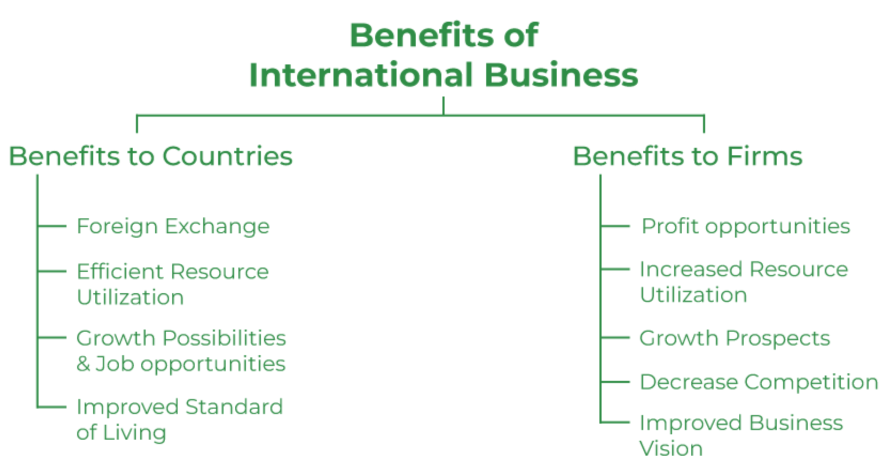
Foreign Direct Investment (FDI): Investment made by an individual or company located in one country to the business interest located in another foreign country.

1.7 Reason for International Business

- **Uneven Distribution of Natural Resources:** Due to unequal distribution of natural resources, all countries cannot produce goods at a low cost. As a consequence, it has an impact on their productivity levels. Therefore, the countries with less quantity of a natural resource either purchase the resource or the actual product itself from the countries with an abundance of these. **For example,** crude oil is exported from the USA as it is found in abundance there.

- **Availability of Productivity Factors:** The numerous production variables, like labor, capital, and raw materials, that are required to produce and distribute diverse commodities and services are found in different quantities in different countries. It gives rise to buying and selling of productivity factors among the countries. **For example,** due to unemployment in India, foreign countries can employ labor at chap rates from India.
- **Specialization:** Some countries specialize in producing goods and services for which they have advantages such as education, favorable climatic circumstances, and so on. It results in the business between different countries for the purchase and sale of specialized products. **For example,** the Indian market specializes in handcraft products which increases its exports to other countries.
- **Cost Advantages:** Production costs vary according to geographical, political, and socioeconomic situations in different countries. Some countries are in a better position to manufacture certain commodities at a lower cost than others. Firms participate in international trade to purchase products that are cheaper in other countries and to sell things that they can supply at a lower cost. **For example,** China sells various goods at a low price to different countries all over the world because of the cost advantage.

1.8 Benefits/Advantages of International Business



Benefits to countries

- **Foreign Exchange:** It assists a country in earning foreign exchange, which may then be utilized to buy capital goods, technology, and other products from foreign countries.
- **More Efficient Resource Utilization:** It is based on the comparative cost advantage theory. It entails producing what your country can produce more efficiently and trading the surplus production with other countries to purchase what they can produce more efficiently. In this way, countries can make better use of their resources.
- **Growth Possibilities and Job Opportunities:** Countries can enhance their manufacturing capacity to supply commodities to other countries through external trade. If external trade holds, the production will rise, increasing the GDP level of the country, resulting in economic growth. With more production, the demand for more labor also rises. Therefore, the international business also creates job opportunities.
- **Improved Standard of Living:** International business allows individuals to consume goods and services from other countries. Consumption of a variety of goods and services improves the standard of living of the people.

Benefits to firms

- **Profit Opportunities:** When compared to local business, international business is more profitable. When domestic prices are lower, businesses can make more money by selling their products in other countries.
- **Increased Resource Utilization:** Many enterprises anticipate international growth and get orders from foreign clients to set up production capabilities for their products that are more in demand in the local market. It enables them to better utilize their excess resources.

- **Growth Prospects:** When demand falls or the domestic market reaches saturation point, business enterprises become irritated. By expanding internationally, such businesses can increase their growth potential significantly.
- **Decrease Competition:** When domestic competition is fierce, internationalization appears to be the only option to achieve success and required growth. Many businesses are motivated to expand into overseas markets because of the fierce competition in the domestic markets.
- **Improved Business Vision:** Many firms' existence and goodwill depend on their ability to expand their worldwide business. The desire to expand and diversify, as well as to take advantage of the strategic advantages of internationalization, is expressed in the desire to become more international.

1.9 Approaches of international business

Approaches to Internationalisation**:** Approaches to international business and its marketing take the form of an EPRG schema (ethnocentrism, polycentrism, regiocentrism, geocentrism). This typology serves as the basis for the stages of corporate development.

1. Ethnocentric Approaches: The ethnocentric orientation is an assumption or belief that the home country i superior. Someone having this orientation sees the similarities in markets, and thus believe that the products and practices which succeed in the home country are superior and, thus should be used everywhere. In the ethnocentric company, overseas operations are viewed as being secondary to domestic and primarily as a means of disposing off surplus domestic production. Plans for overseas markets are developed in the home office to use policies and procedures identical to those who are employed at home.

There is no systematic marketing research conducted overseas, there are no major modifications to products, and also there is no real attention to consumer needs in foreign markets. The executives at the head office of the company make the decisions related to exports and, the marketing personnel of the domestic company monitor these export operations through an export department.

The company exports the same product designed for domestic markets to foreign countries under this approach. Hence, maintenance of domestic approach towards international business is called as ethnocentric approach.

This approach is suitable for the companies during the early days of internationalization and also to the smaller companies.

2. Polycentric Approach: The polycentric approach is the unconscious belief that each host country is unique and different and that the way to succeed in each country is to adapt to each country's unique differences. In the polycentric stage, subsidiaries are established in the overseas markets. Each subsidiary operates independently from the others and establishes its own marketing objectives and plans. Marketing is organised on a country by-country basis, where each country has its own unique marketing policy. The domestic companies that are exporting to foreign countries using the ethnocentric approach find at the latter stage that the foreign markets need an altogether different approach.

The company establishes a foreign subsidiary company and thus decentralises all the operations and delegates decision-making and policy making authority to its executives.

In this approach, the company appoints executives and personnel including a chief executive who reports directly to the managing director of the company. Company appoints the key personnel from the home country and all the remaining vacancies are filled by the people of the host country.

3. Regiocentric Approach: The company as it is operating successfully in a foreign country thinks of exporting to the neighboring countries of the host country. At this stage, the foreign subsidiary considers the regional environment to formulate policies and strategies. But it markets more or less the same product which has been designed under polycentric approach in other countries of the region, but with different market strategies.

4. Geocentric Approach: Under this approach, the entire world is same as a single country for the company. They select the employees from the entire globe and thus operate with a number of subsidiaries. The headquarter co-ordinates activities of the subsidiaries and each subsidiary functions like an independent and autonomous company in the formulation of policies, strategies, product design, human resource policies, operations, etc.

In this approach, the multinational environment takes a global approach to its global operations which recognises that subsidiary and corporate makes unique contribution with its unique competency. This is accompanied by a worldwide integrated business & where nationality is ignored to favour ability.

1.20 Problems of international Business

International business suffers from some specific problems which are explained below:

a. **Difference in languages and problem of distance**: Each country has its own language in which its traders wish to prepare their trade documents right from trade enquiry or the letter of quotation to the payment documents. This works as a serious barrier between the traders of the different countries. Moreover, the distance between the trading countries increases the cost of transportation of goods, making the price high and also creating a risk of fraud, etc. as the traders may not have face to face contact between them.

b. **Import-export restrictions**: At times many countries put certain restrictions on their foreign trade to make their Balance of Payment (BOP) favourable. They impose heavy tariffs or import duties, volume restrictions on both of their imports as well as their exports. This hampers the smooth conduct of International trade.

c. **Lack of proper information about the foreign market**: In most of the cases new traders do not have adequate information about foreign markets whatever information is provided by different agencies are either inadequate or does not fulfill their requirements. Thus, they fail to have clarity about the opportunities available to them for exports and imports.

d. **Heavy documentation:** International Trade requires so many legal formalities and many documents, which makes the trade procedure very cumbersome as well complex. Therefore most of the small traders trade only through third parties rather than going directly and have to pay commission to them which reduce, their profit margins, increase the cost of transactions.

e. **Payment problems**: There may arise payment problem between traders of both countries as they both want to transact in their own currency and fluctuations in foreign exchange may also add on to the problem of payment and due to this risk may also arise for both the traders.

f Different Trade Patterns:

International business has to deal with the business patterns among the various countries of the world. It has to take into account these business policies of various countries which govern their imports and exports. These policies and practices impose certain constraints and restrictions on international business.

g. Regulatory Measures:

Every country wants to export its surplus natural resources, agricultural produce and manufactured goods to the extent, it can and import only these goods and products which are not produced or manufactured within the country. For this purpose regulatory measures like tariff barriers (custom duties) non-tariff barriers, quota restrictions, foreign exchange restrictions, technological and administrative regulations, consulter formalities, state trading and preferential arrangements, trade agreements and joint commissions etc. Come in the way of free trade and unfettered flow of foreign business.

h. Lop Sided Development of Developing Countries:

Developed counters are equipped with sophisticated, technologies capable of transforming raw materials into finished goods on a large scale. While developing countries on the other-hand lack technological knowledge and latest equipment. It leads to the lop sided development in the international business.

i. Economic Unions:

There is an increasing tendency among nations to form small groups of Economic Unions which help them to negotiate terms for the business with other countries. The country desirous of achieving self-sufficiency follows a strategy of importing capital goods equipped with latest and sophisticated technology and restricting imports of less important consumer goods with a view to lowering down its import bill.

j. Procedural Difficulties:

Different countries have evolved different procedures, practices and documents in order to regulate the export trade. Some of these such as foreign exchange control regulations and others have been formulated after keeping in view the national objectives and have posed certain procedural problems to exporters and importers.

UNIT 2

2.1 What Is International Trade Theory?

International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. *International trade* is then the concept of this exchange between people or entities in two different countries.

People or entities trade because they believe that they benefit from the exchange. They may need or want the goods or services. While at the surface, this many sound very simple, there is a great deal of theory, policy, and business strategy that constitutes international trade.

2.2 What Are the Different International Trade Theories?

To better understand how modern global trade has evolved, it's important to understand how countries traded with one another historically. Over time, economists have developed theories to explain the mechanisms of global trade. The main historical theories are called *classical* and are from the perspective of a country, or country-based. By the mid-twentieth century, the theories began to shift to explain trade from a firm, rather than a country, perspective. These theories are referred to as *modern* and are firm-based or company-based. Both of these categories, classical and modern, consist of several international theories.

Classical Country-Based Theories	Modern Firm-Based Theories
Mercantilism	Country Similarity
Absolute Advantage	Product Life Cycle
Comparative Advantage	Global strategic Rivalry
Heckscher-Ohlin	Porter's National Competitive Advantage

2.3 Heckscher-Ohlin model

The primary work behind the Heckscher-Ohlin model was a 1919 Swedish paper written by Eli Heckscher at the Stockholm School of Economics. His student, Bertil Ohlin, added to it in 1933.

The Heckscher-Ohlin model is an economic theory that proposes that countries export what they can most efficiently and plentifully produce. Also referred to as the H-O model or 2x2x2 model, it's used to evaluate trade and, more specifically, the equilibrium of trade between two countries that have varying specialties and natural resources.

The model emphasizes the export of goods requiring factors of production that a country has in abundance. It also emphasizes the import of goods that a nation cannot produce as efficiently. It takes the position that countries should ideally export materials and resources of which they have an excess, while proportionately importing those resources they need.

The Heckscher-Ohlin model explains mathematically how a country should operate and trade when resources are imbalanced throughout the world. It pinpoints a preferred balance between two countries, each with its resources.

The model isn't limited to tradable commodities. It also incorporates other production factors such as labor. The costs of labor vary from one nation to another, so countries with cheap labor forces should focus primarily on producing labor-intensive goods, according to the model.

Some important information regarding the Heckscher-Ohlin model

- The Heckscher-Ohlin model evaluates the equilibrium of trade between two countries that have varying specialties and natural resources.
- The model explains how a nation should operate and trade when resources are imbalanced throughout the world.
- The model isn't limited to commodities, but also incorporates other production factors such as labor.

2.4 National Competitive Advantage Theory

Micheal Porter gave the diamond theory of national advantage, which states that the features of home country are crucial for the success of an organization in the international markets.This theory is called the diamond theory, as it is depicted in the shape of a diamond framework.

It describes the factors that contribute to the success of organizations in global industries. These factors are called the determinants of the national advantage.

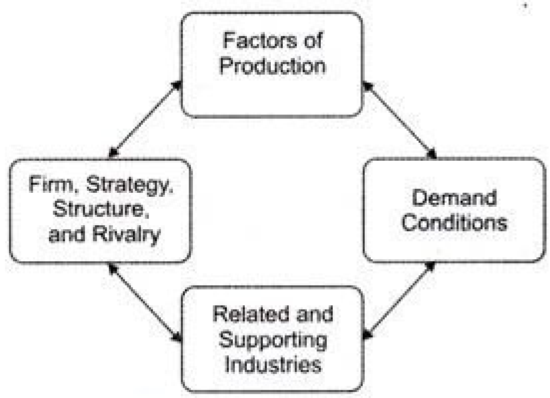


Figure-4: Determinants of the National Advantage

(a) Factors of Production:

Include the inputs necessary for producing goods and services. The basic factors to carry out a business include natural resources and labor; whereas, advanced factors include infrastructure, such as communication systems.

The skilled personnel form the part of specialized factors. If a country is endowed with all these factors of production, it would be successful in the global market. However, there may be countries that have advanced and specialized factors but lack in the basic factors.

For example, South Korea lacks natural resources, but have specialized engineers. Thus, it can be said that the countries that lack in natural resources develop new methods or processes that lead to a national comparative advantage.

(b) Demand Conditions:

Refer to the nature and size of the customers of the products in the home market. The strong demand conditions in the home country persuade the domestic organizations to constantly improve the product. If the demand of a product is more in the domestic market then it can influence the demand of customers in the foreign market.

(c) Related and Supporting Industries:

Involve industries in the country that are considered as the leader of a particular product. These industries help in innovation that helps organization under them to produce at low cost.

In addition, the growth of one industry influences the growth of other industries. For instance, the growth and development of the automobile industry would enhance the growth opportunities of the steel industry.

(d) Organizational Strategy, Structure, and Rivalry:

The strategies, structures, and rivalry are very important for the success of an organization. This factors Varies from country to country. The strategies help in setting new goals, the structure helps in managing operations, and rivalry helps in generating innovative ideas in organizations.

These four determinants can also be called as the dimensions of the diamond model that help in contributing to the national advantage. According to Porter, these dimensions interact with each other and help in increasing the competitiveness of the organizations.

2.5 The Global Strategic Rivalry Theory

The Global Strategic Rivalry Theory of international trade was developed in the 1980s by such economists as Paul Krugman and Kevin Lancaster as a means to 'examine the impact on trade flows arising from global strategic rivalry between Multi-National Corporations.' It explores the notion that in order to stay viable, firms should exploit their competitive advantage globally and try to keep it sustainable. According to this view, firms struggle to develop some sustainable competitive advantage, which they can then exploit to dominate the global marketplace.

Global strategic rivalry theory predicts that intra industry trade will be commonplace. It focuses, however, on strategic decisions that firms adopt as they compete internationally. These decisions affect both international trade and international investment.

Companies such as Caterpillar and Komatsu, Unilever and Protect & Gamble, and Toyota and Ford continually play cat-mouse games with one another on a global basis as they attempt to leverage their own strengths and neutralize those of their rivals.

Firms competing in the global marketplace have numerous ways of obtaining a sustainable competitive advantage. There are many ways in which a firm can hold a competitive advantage, these include; Owning intellectual property rights, Investing in research and development, Achieving economies of scale or scope, Exploiting the experience or learning curve, Forging strategic alliances and Strategic mergers and acquisitions.

Their theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive advantage are called the barriers to entry for that industry. The barriers to entry refer to the obstacles a new firm may face when trying to enter into an industry or new market. The barriers to entry that corporations may seek to optimize include:

- research and development,
- the ownership of intellectual property rights,
- economies of scale,
- unique business processes or methods as well as extensive experience in the industry, and
- The control of resources or favorable access to raw materials.

2.6 Product Life Cycle Theory

The International Product Life Cycle Theory was authored by Raymond Vernon in the 1960s to explain the cycle that products go through when exposed to an international market. The cycle describes how a product matures and declines as a result of internationalization. There are three stages contained within the theory.

a) New Product Introduction

The cycle always begins with the introduction of a new product. In this stage a corporation in a developed country will innovate a new product. The market for this product will be small and sales will be relatively low as a result. Vernon deduced that innovative products are more likely to be created in a developed nation because the buoyant economy means that people have more disposable income to use on new products.

To offset the impact of low sales, corporations will keep the manufacture of the product local, so that as process issues arise or a need to modify the product in its infancy stage presents itself, changes can be implemented without too much risk and without wasting time.

As sales increase, corporations may start to export the product out to other developed nations to increase sales and revenue. It's a straightforward step towards the internationalization of a product because the appetite of people within developed nations tends to be quite similar.

b) The Maturity Stage

At this point, when the product has firmly established demand in developed countries, the manufacturer of the product will need to consider opening up production plants locally in each developed country to meet the demand. As the product is being produced locally, labor costs and export and costs will decrease thereby reducing the unit cost and increasing revenue. Product development can still occur at this point as there is still room to adapt and modify the product if needed. Appetites for the product in developed nations will continue to increase in this stage.

Although the unit costs have decreased due to the decision to produce the product locally, the manufacture of the product will still require a highly skilled labor force. Local competition to offer alternatives start to form. The increased product exposure begins to reach the countries that have a less developed economy, and demand from these nations start to grow.

c) Product Standardization and Streamlining of Manufacturing

Exports to nations with a less developed economy begin in earnest. Competitive product offers saturate the market which means that the original purveyor of the product loses their competitive edge on the basis of innovation. In response to this, rather than continuing to add new features to the product, the corporation focuses on driving down the cost of the process to manufacture the product. They do this by moving production to nations where the average income is much lower and standardizing and streamlining the manufacturing methods needed to make the product.

The local workforce in lower income nations are then exposed to the technology and methods to make the product and competitors begin to rise as they did in developed nations previously. Meanwhile, demand in the original nation where the product came from begins to decline and eventually dwindles as a new product grabs the attention of the people. The market for the product is now completely saturated and the multinational corporation leaves the manufacture of the product in low income countries and instead, focuses its attention on new product development as it bows gracefully out of the market.

What is left of the market share is divvied up between predominantly foreign competitors and people in the original country who want the product at this point, will most likely buy an imported version of the product from a nation where the incomes are lower. Then the cycle begins again.

2.7 Country Similarity Theory of International Trade

Country similarity theory was developed by a Swedish economist named Steffan Linder. The **country similarity theory** is built of identical features of nations in trade like location or culture or political/ economic interests or technological capability (that is acquired advantage) or natural advantage or lack of it.

- **Developed countries trade more with developed countries**:

  Products of a developed country match demand and user conditions of another developed country only. Hence the similarity in development pace decides trade between countries. The reasoning is that a developed country introduces a new product and similarly developed countries find the product quite useful and hence go for the same. This is because needs become more or less common in countries with similar levels of development. The industrialized countries produce more; hence people's spend power is high; the power is apportioned between domestic and foreign goods, both of course catering to similar need satisfaction.

- **Countries in same cultural milieu trade more amongst themselves**: Countries in same cultural milieu will have similar demands as for as cultural products/services like family functions, rites, rituals, entertainments, religious ceremonies and so on. Cross country offerings are more. Countries with no similarity either by cultural, technological or other basis may not trade. While countries in the northern hemisphere trade intensively inter se, countries in the southern hemisphere do not trade intensively. The pointed out reason is that no historic ties amongst the countries. Perhaps the traders do not want to taste new shores.

- **Countries in similar geo-features trade inter se more:** Countries in similar geo-features like ecological or climatic factors will mutually cater to cross border demands. A kind of cross-border monopolistic competition emerges with firms vying for cross-country market share with the thrust on product differentiation.

- **Countries with similar political and economic interests trade more inter se**: Trade between countries with similar political and economic interests is more common than between countries that differ.

  Example : Cuba and US are in the same continent, but due to political ideological differences they scarcely trade for over 5 decades. Cuba is a good source of supply of sugar. But US prefers not to taste Cuban sugar. EU countries amongst themselves pulled down all protectionist impediments to trade and intra-regional trade is highest, because they have similar geo-features.

- **Intra-industry trade abetted by similarity factor**: Similarly placed countries capabilities as well as needs happen to be similar. So, quite a lot of intra-industry trade among these similarly placed countries happens.

  Example : US exports good lot of road vehicles and imports much road vehicles as well too. Needs are same across the nations. Offerings are also same across the nations, but product differentiation is built through top gear promotion. Intra industry trade happens because of sheer dispersed desire for foreign brands. Intra industry trade accounts for approximately 40 per cent of world trade.

UNIT 3

3.1 What is the meaning of multinational company?

Multinational Corporation (MNC), also called transnational corporation, **any corporation that is registered and operates in more than one country at a time**.

3.2What Is a Multinational Corporation?

A multinational corporation (MNC) is a company that has business operations in at least one country other than its home country.

Generally, a multinational company has offices, factories, or other facilities in different countries around the world as well as a centralized headquarters which coordinates global management.

Multinational companies can also be known as international, stateless, or transnational corporate organizations or enterprises. Some may have budgets that exceed those of small countries.

3.3 Characteristics of a Multinational Corporation

The following are the common characteristics of multinational corporations:

1. Very high assets and turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company’s targets are high, and they are able to generate substantial profits.

2. Network of branches

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

3. Control

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

5. Sophisticated technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

6. Right skills

Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

8. Good quality products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

3.4 Reasons for Being a Multinational Corporation

There are various reasons why companies want to become multinational corporations. Here are some of the most common motivations:

1. Access to lower production costs

Setting up production in other countries, especially in developing economies, usually translates to spending significantly less on production costs. Though outsourcing is a way of achieving the objective, setting up manufacturing plants in other countries may be even more cost-efficient.

Due to their large size, MNCs can take advantage of economies of scale and grow their global brand. The growth is done through strategic manufacturing/service placement, which allows the corporation to take advantage of undervalued services across the globe, more efficient and inexpensive supply chains, and advanced technological/R&D capacity.

2. Proximity to target international markets

It is beneficial to set up business in countries where the target consumer market of a company is located. Doing so helps reduce transport costs and gives multinational corporations easier access to consumer feedback and information, as well as to consumer intelligence.

International brand recognition makes the transition from different countries and their respective markets easier and decreases per capita marketing costs as the same brand vision can be applied worldwide.

3. Access to a larger talent pool

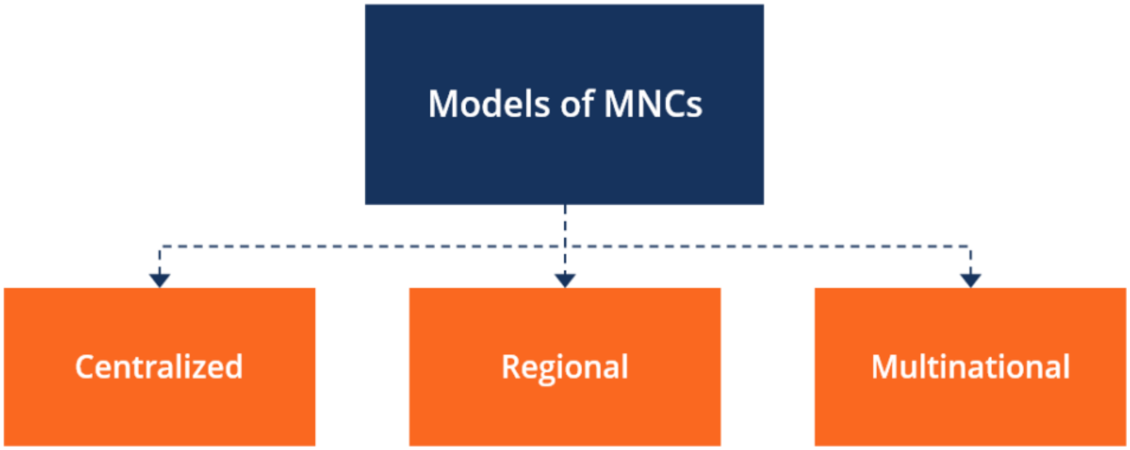
Multinational corporations are also known to hire only the best talent from around the world, which allows management to provide the best technical knowledge and innovative thinking to their product or service.

4. Avoidance of tariffs

When a company produces or manufactures its products in another country where they also sell their products, they are exempt from import quotas and tariffs.

3.5 Models of MNCs

The following are the different models of multinational corporations:



1. Centralized

In the centralized model, companies put up an executive headquarters in their home country and then build various manufacturing plants and production facilities in other countries. Its most important advantage is being able to avoid tariffs and import quotas and take advantage of lower production costs.

2. Regional

The regionalized model states that a company keeps its headquarters in one country that supervises a collection of offices that are located in other countries. Unlike the centralized model, the regionalized model includes subsidiaries and affiliates that all report to the headquarters.

3. Multinational

In the multinational model, a parent company operates in the home country and puts up subsidiaries in different countries. The difference is that the subsidiaries and affiliates are more independent in their operations.

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3.6 Factors in the Growth of Multinational Corporations

The main factors which have contributed towards the growth of multinational corporations are given below:

- **Market Expansion:** The growth of GDP and per capita income in various countries led to increasing demand for goods and services. Companies in developed economies, explained their operations overseas to exploit the expanding markets abroad.

- **Marketing Superiorities :** Multinationals enjoy the following marketing superiorities over the following over the domestic companies :

a) Availability of more reliable and up-to-date information about market conditions.

b) Reputation in the market due to popular brands and image.

c) More effective advertising and sales promotion techniques.

d) Wide distribution network.

e) Quick transportation and warehousing facilities.

- **Financial Superiorities :** Multinationals are financially superior to domestic companies in the following respects :

a) Huge financial resources.

b) More effective and economical utilisation of funds through transfer of excess funds from one country to another.

c) Easy access to foreign capital markets.

d) Easy mobilisation of high quality resources of different types.

e) Access to international banks and financial institutions.

- **Technological Superiorities:** Multinationals have strong R & D departments. They can invent and innovate new products and processes more easily and frequently. This provides them an edge over national companies. Developing countries invite multinationals for advanced technology due to the following reasons :

a) Developing countries do not have the resources to develop advanced technology and the level of industrialisation is low.

b) They are unable to exploit their rich mineral and other natural resources due to shortage of funds and low level technology.

c) They do not have adequate foreign exchange reserves to import raw materials, capital equipment and technology on their own.

d) They face difficulty in marketing their products in highly competitive world markets.

Advantages of Being a Multinational Corporation

There are many benefits of being a multinational corporation including:

1. Efficiency

In terms of efficiency, multinational companies are able to reach their target markets more easily because they manufacture in the countries where the target markets are. Also, they can easily access raw materials and cheaper labor costs.

2. Development

In terms of development, multinational corporations pay better than domestic companies, making them more attractive to the local labor force. They are usually favored by the local government because of the substantial amount of local taxes they pay, which helps boost the country's economy.

3. Employment

In terms of employment, multinational corporations hire local workers who know the culture of their place and are thus able to give helpful insider feedback on what the locals want.

4. Innovation

As multinational corporations employ both locals and foreign workers, they are able to come up with products that are more creative and innovative.

Foreign Direct Investment

Foreign direct investments are prevalent within multinational corporations. The investments occur when an investor or company from one country makes an investment outside the country of operation.

Foreign investments most often occur when a foreign business is established or bought outright. It can be distinguished from the purchase of an international portfolio that only contains equities of the company, rather than purchasing more direct control.

3.7 Advantages of Multi National Corporations (MNCs)

i. Low Cost Labour

MNC set up their facilities in low cost countries and produce goods/service at lower cost. It gains cost advantage and sells its products and services of good quality at low cost. This is not available to smaller companies which operate at regional level.

ii. Quality Products

The resource, experience and expertise of MNCs in the sphere of research and development enables the host country to establish its research and development system which helps it in producing quality goods and services at least possible cost.

iii. Proper Use of Idle Resources

Because of their advanced technical knowledge, MNCs are in a position toproperly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

iv. Improvement in Balance of Payment Position

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

v. Technical Development

MNCs carry the advantages of technical development 10 host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

vi. Managerial Development

MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

vii. End of Local Monopolies

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative trade practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

viii. Improvement in Standard of Living

By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

ix. Promotion of international brotherhood and culture

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

3.8 Disadvantages of Multi National Corporations (MNCs)

i. Danger for Domestic Industries

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

ii. Transfer of Outdated Technology

Where MNCs transfer outdated technology to host nation, it serves no purpose.

iii. No Benefit to Poor People

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

iv. Danger to Independence

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

v. Deprivation of Job Opportunity of Local People

MNCs may not generate job opportunities to the people of home country.

vi. Misuse of Mighty Status

MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits- once they have ended local competition and achieved monopoly. This may be the dirty marketing strategy of MNCs to wipe off local competitors from the host country.

vii. Careless Exploitation of Natural Resources

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

viii. Selfish Promotion of Alien Culture

MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

ix. Neglect of Industrial and Economic Growth of Home Country

An investment in host countries is more profitable, MNCs may neglect home countries industrial and economic development.

3.9 Approaches to organization structure of MNC'S

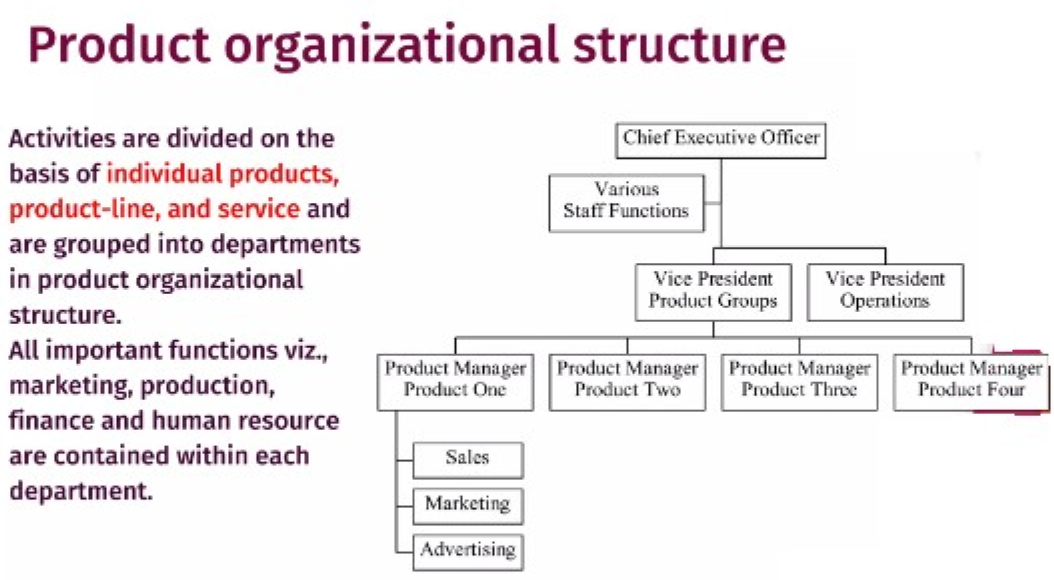
1) Product organisational structure

Product organisational structure is a framework in which a business is organised in separate divisions, each focusing on a different product or service and functioning as an individual unit within the company.

What is a product-based structure?

In a product-based structure (also known as a **divisional structure**), you assign employees into self-contained **divisions** according to:

- the particular line of products or services they produce
- the customers they deal with
- the geographical area they serve



The structure may have several layers of managers and employees. Each layer (ie division) can have its own marketing team, its own sales team, and so on. A manager typically reports to the head of the company by product type, eg sporting goods, housewares and general merchandise. Certain key functions (eg finance or human resources) may be provided centrally.

For example, a computer software business may divide its structure according to its two distinct customer groups - home users and business users. In such an arrangement, all employees working on the development, sales or promotion of business software would be in one division, while everyone working on software for home users would be in another.

Product structure advantages and disadvantages

Product organisation may not suit everyone, but is likely to provide distinct **advantages** to those businesses that:

- have particular product lines that are substantially different
- require specialised expertise for production or distribution
- target a few major customers that make up most of your business

Product structure can also help your business:

- focus on specific market segments
- meet customer needs more effectively
- extend knowledge or expertise within specialised divisions
- respond to market changes more flexibly and quickly
- encourage positive competition between each department
- coordinate and measure the performance of each division directly

Product organisational structure does have certain **disadvantages**, including being difficult to scale and potentially:

- duplicating functions and resources, eg a different sales team for each division
- dispersing technical expertise across smaller units
- nurturing negative rivalries among divisions
- over-emphasising divisional, rather than organisational goals
- losing central control over each separate division

Product or divisional structure is mainly suitable for larger companies with two or more key product lines, strategic customers or markets.

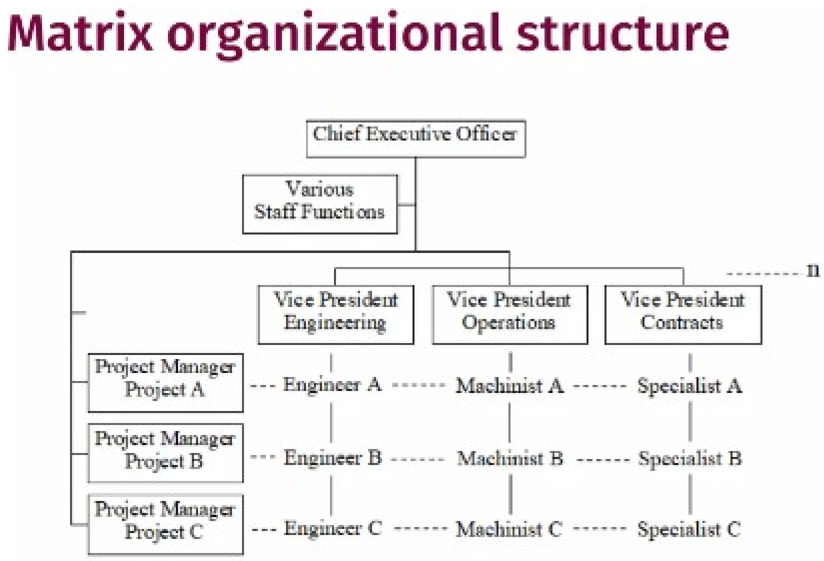
2) Matrix organisational structure

A **matrix organisational structure** doesn't follow the traditional, hierarchical model. In the matrix structure, you share resources and staff across teams and projects, as well as within departments or functions.

What is a matrix organisational structure?

A matrix structure is a combination of two or more types of organisational structures. It is a way of arranging your business so that you set up reporting relationships as a grid, or a matrix, rather than in the traditional hierarchy.

In this structure, employees usually have **dual reporting relationships** - generally to their functional manager as well as the project manager. Typically, one reporting line will take priority over the other (eg staff may have to report to their functional manager before reporting to the project manager).



Examples of matrix structure

Different forms of matrix structure exist. These fall under three main categories, depending on the level of power of the project manager:

- **Functional or weak matrix** - the functional manager retains most of the power and is in charge of the people and resources. The project manager has a minimal role and tends to carry out administrative or coordinating tasks.
- **Strong matrix** - the project manager holds most of the power and authority, controls the project budget and manages staff. The role of the functional manager is limited.
- **Balanced matrix** - the functional managers and the project managers share the power and the authority over staff and budget.

In large organisations, it is possible to involve all these types of matrix structure at different levels within a business. This is sometimes referred to as a 'composite organisation'.

The advantages of a matrix organisational structure

The main **advantage of the matrix structure** is that it can:

- improve decision-making, since there are two chains of command
- help break down traditional 'silo' barriers

- improve communication across the business
- allow staff to apply their skills in different roles
- help share best practice and ideas across teams
- increase efficiencies due to sharing resources across departments

The matrix structure can also help businesses achieve quick market adaptation to changing customer needs, as it can decrease the lead time to produce a new product. This structure is most suitable for businesses operating in a dynamic environment.

The disadvantages of a matrix organisational structure

A matrix structure may not be well suited for businesses working in a more settled environment, with set customer requirements. Because of its complexity, and the need for employees to report to two bosses, it can lead to:

- confusion regarding roles, responsibilities and priorities
- divided loyalties between project teams
- blurred lines of accountability
- difficulties in coordinating tasks or functions
- power struggle between the project manager and the functional manager
- large overhead costs, on account of having multiple managers

Matrix organisational structure vs functional

A matrix organisational structure often exists alongside a traditional functional structure. It is common in large and multi-project organisations that relocate employees when and where they need them. For smaller businesses with limited resources, **organisational structure by function** may be more suited.

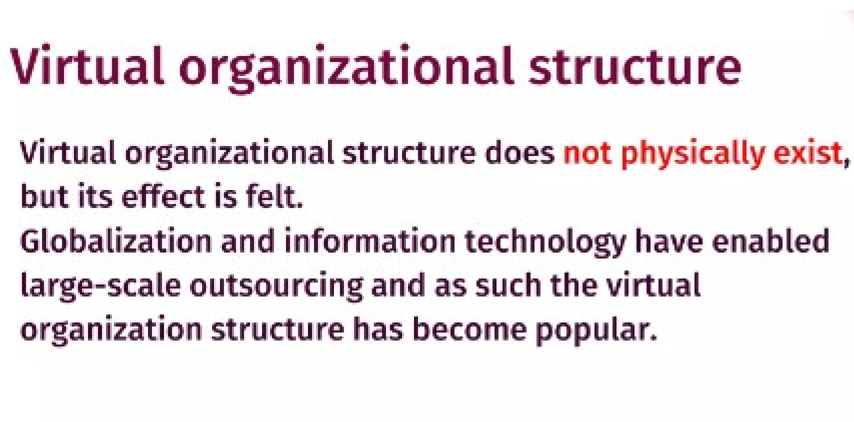
3) virtual organization structure

A virtual organization is an operation where all members of the company work in different geographic locations while appearing as a single unit. It uses computers, software, phones and other technology to work together and converse in real-time, despite any physical distance. It's important for virtual organizations to establish detailed procedures that ensure consistency in employee performance and provide employees with the ample resources and support they need to conduct their responsibilities in a remote work environment.

Components of a virtual organization

Each virtual organization is unique, although they often include many of the same components for optimal operations, like a remote workforce and company-specific technology networks. Other components of a virtual organization may include:

- A flat organization structure with less middle management
- Virtual teams
- Loose organizational structure
- Boundaries and expectations
- Power flexibility
- Informal communication



Benefits of a virtual organization

Here are some benefits of virtual organizations:

Lower overhead costs

Virtual organizations often have lower overhead costs because they don't need to pay monthly fees for renting office spaces. Companies also save money by not having to pay supplemental fees involved with renting a space, like utilities and maintenance costs. Some organizations also ask employees to use their own equipment, such as personal computers and web cameras, reducing equipment costs.

Improved employee satisfaction

Many virtual organizations have higher levels of employee satisfaction, presumably from the increased freedom employees have to work in their own space. Some employees feel less stressed, and the flexibility of working remotely often reduces absences. This helps improve overall company morale and can encourage individuals to present quality work on behalf of their employer.

Improved efficiency

Virtual organizations don't have the same distractions as traditional office settings, such as the urge to chat with people surrounding you. With fewer distractions, efficiency may improve, resulting in higher levels of productivity and better-quality work. Employees can establish their own work environment, allowing them to determine what helps them best achieve more work in less time.

Larger hiring market

Virtual organizations can hire employees from anywhere in the world. This removes geographic restrictions, expanding the talent pool for hiring and allowing companies to hire individuals with varying backgrounds and perspectives. This allows organizations to find, recruit and hire the best talent without physical locations getting in the way.

Flexible hours

Virtual organizations often have flexible hours, with many employers allow employees to determine their own schedules within certain parameters. For example, some companies establish core hours, such as 10 a.m. to 2 p.m. within a specific time zone each day, and allow employees to work whenever they want outside of those hours. This level of flexibility often allows organizations to accommodate a variety of different employees and their lifestyles.

Improved employee retention

Many virtual organizations have happy employees. Satisfied employees are often more engaged at work and less likely to leave the company. This is especially true if the organization also offers excellent benefits and competitive salaries besides their virtual organization setup.

Access to new markets

Virtual organizations often have access to a wide range of markets. These organizations do not have geographic restrictions, allowing them to work with customers who may have been inaccessible. This is especially appealing for remote sales professionals who can access consumer markets from all corners of the world without physical distance or travel costs getting in the way.

Challenges of a virtual organization

Here are some challenges you may experience while working for a virtual organization, along with tips for overcoming them:

Lack of camaraderie

Virtual organizations may experience a lack of camaraderie among teams. Employees work isolated from each other, and they rarely meet face-to-face. There are few opportunities for casual conversations to help build relationships.

You can overcome this by bringing traditional office events and aspects into the virtual setting. Consider hosting video chats for virtual happy hours or trivia contests.

Think about creating instant messaging channels related to specific hobbies, interests or lifestyles, such as channels for parents or people who enjoy reading or playing video games. These channels can help employees make personal connections with each other and increase feelings of camaraderie.

Difficulty developing company culture

Virtual organizations may struggle to develop and implement a company culture. There may be a lack of cohesiveness among the team, as flexible schedules can lead to employees feeling disconnected from each other.

Consider establishing certain hours of the week employees need to work without eliminating their freedom and flexibility. Schedule regular meetings to discuss the state of the company and gather feedback from employees. Use technology to emphasize company culture, such as casual instant messaging conversations, to encourage employees to get to know each other better.

Increased importance of communication

Working in a virtual organization enhances the importance of good communication. Employees cannot share information in passing like they would in a normal office setting. It may be difficult for employees to meet from varied schedules.

It's important to set clear policies and use a variety of tools to ensure employees actively and effectively communicate with each other. Develop a clear policy for sending and responding to emails and how to record important client information. Consider scheduling daily or weekly check-in calls. Use an instant messaging service, and set up individual channels or threads for specific groups.

Potential compliance and security issues

Virtual organizations may present some compliance or security issues. These organizations require employees to transport a lot of data across multiple networks, some of which may involve connections that are not secure. While this may be a risk for an organization, this may be a higher risk for companies dealing with sensitive information in industries like healthcare and finance.

UNIT-IV

CONTROLLING OF INTERNATIONAL BUSINESS

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

1. Strategic

2. Organizational
3. Operational

Strategic Control:

Strategic control in intended both how well an international business formulates strategy and how well it goes about implementing it. Thus strategic control focuses on how well the firm defines and maintains its desired strategic alignment with its environment and how effectively it is setting and achieving its strategic goals.

Strategic control also play a major role in the decisions firms make about foreign-market entry and expansion and most critical aspect of strategic control is control of an international firm's financial resources.

Organizational Control:

Organizational control focuses on the design of the organization itself. There are many different forms of organizational design an international firm can use. But selecting and implementing a particular design does not necessarily end the organization design process.

International firm generally use one or more of three types of organizational control systems:

Responsibility Centre Control:

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

Generic Organizational Control:

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

Planning Process Control:

A third type of organizational control, which could be used in combination with either responsibility center control or generic organizational control, focuses on the strategic planning process itself rather than on outcomes. Planning process control calls for a firm to concentrate its organizational control system on the actual mechanics and processes its uses to develop strategic plans.

Operations Control:

The third level of control in an international firm is operations control. Operations control focuses specifically on operating processes and systems within both the firm and its subsidiaries and operating units. Thus a firm needs an operation control system within each business unit and within each country or market in which it operates.

Establishing International Control Systems

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

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

Set Control Standards for Performance

The first step in establishing an international control system is to define relevant control standards. A control standards in this context is a target, a desired level of performance component the firm is attempting control. Control standards need to be objective and consistent with firm’s goals.

Measure Actual Performance

The second step in creating an international control system is to develop a valid measure of the performance component being controlled. For the firm introducing a new product in a foreign market, performance is based on the actual number of units sold. For the new plant in

Thailand used as an example earlier, performance would be assessed in terms of productivity, quality, and hiring and purchasing practices.

Compare Performance Against Standards

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

Responding to Deviations

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

The control standard has been met.

It has not been met.

It has been exceeded.

Depending on the circumstances, managers have many alternative responses to these outcomes. If a standard has not been met and the manager believes it is because of performance deficiencies on the part of employees accountable for the performance, the manger may mandate higher performance, increase incentives to perform at a higher level, or discipline or even terminate those employees.

Problems in Control of International Business

The following points highlight the seven main problems of International business.

The problems are: 1. Different Trade Patterns 2. Regulatory Measures 3. Lop Sided Development of Developing Countries 4. Economic Unions 5. National Policy of Development 6. Procedural Difficulties 7. Other Problems.

1. Different Trade Patterns:

International business has to deal with the business patterns among the various countries of the world.

It has to take into account these business policies of various countries which govern their imports and exports. These policies and practices impose certain constraints and restrictions on international business.

2. Regulatory Measures:

Every country wants to export its surplus natural resources, agricultural produce and manufactured goods to the extent, it can and import only these goods and products which are not produced or manufactured within the country. For this purpose regulatory measures like tariff barriers (custom duties) non-tariff barriers, quota restrictions, foreign exchange restrictions, technological and administrative regulations, consulter formalities, state trading and preferential arrangements, trade agreements and joint commissions etc. Come in the way of free trade and unfettered flow of foreign business.

3. Lop Sided Development of Developing Countries:

Developed counters are equipped with sophisticated, technologies capable of transforming raw materials into finished goods on a large scale. While developing countries on the other-hand lack technological knowledge and latest equipment. It leads to the lop sided development in the international business.

4. Economic Unions:

There is an increasing tendency among nations to form small groups of Economic Unions which help them to negotiate terms for the business with other countries.

5. National Policy of Development:

The country desirous of achieving self-sufficiency, follows a strategy of importing capital goods equipped with latest and sophisticated technology and restricting imports of less important consumer goods with a view to lowering down its import bill.

6. Procedural Difficulties:

Different countries have evolved different procedures, practices and documents in order to regulate the export trade. Some of these such as foreign exchange control regulations and others have been formulated after keeping in view the national objectives and have posed certain procedural problems to exporters and importers.

7. Other Problems:

Apart from the problems written above there are many other internal difficulties which restrict our export business and consequently affect the foreign exchange earnings.

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Key Performance Indicators (KPIs) of International Business

`There are four types of key performance indicators which are

1. Quantitative,

2. Directional,
3. Actionable And
4. Qualitative indicators.

This sub categorization could be an extremely valuable tool for a company in the assessment of its performance.

In quantitative indicators, it is used to measure quantity or expressed it as in a form of numbers. Depending on the data being used and involved, they can be expressed in a number ways. It could be in the form as whole number, decimals, ratios, fractions, percentages and monetary values. This type of indicator is easy to use and compare and it benefits us when it come to comparing data. For example, an organization can use the data to compare a scientific indicator throughout a period of time in order to understand the business trends or the position of a company against the competitor. As an example of quantitative indicators in business world are number of invoices processed, turnaround time, number of payments posted, number of reconciliations completed, number of journal entries posted, annual sales, annual expenditures and etc.

The second type of **directional indicators** is used to provide the necessity data for a company in order to get a pulse around whether they wish to improve, remain the same or failing. It will be used to help in identifying the improvement or progress as such in comparing last month's and this month's sales. Directional indicators are extremely helpful to identify the areas which are not performing effectively or efficiently and also to track and corrective action which is taken in a timely manner or it can be the mean difference in between a company success and failure.

Actionable indicator is used to assist in a company to identify area which they can be changed effectively by taking action. As an example that could be shown is a company would do better by the outsourcing processes. In this, the true benefit can be realized when a company or organization analyzes the indicators in place and take appropriate action. Company's performance could be assist by these indicators because it is a valuable tool for them in order to stay ahead of the company competitors. If this indicator is being use to their fullest, it will make a great difference in between a highly successful company or whether the company is barely only maintaining.

There is another one type of indicator, **the qualitative indicators**. In qualitative indicators, it does not show the numeric measures but the depict the status of something which is in more qualitative terms. These indicators are not seem to be appealing but there are some things which are better as compared to the quantitative indicator. For example, how much a poor community is empowered may not be measurable in strict quantitative terms. But they can be graded based on qualitative findings. Whether a cooperative body is properly functioning or not, can be assessed in qualitative terms and then it can be graded.

If a company wish to identify their own company performance, it will be appropriate to use quantitative indicator as it will be easier to understand and view by them. It will be more appropriate and easy to view since the data all will be shown in the form of numbers and it can be clearly seen through the graphs or tables. For company which wants to know about their performance as in the total of sales or profit without the intention to against their competitor, quantitative indicator will be the best indicator to be used. However, for a company or organization that wants to improve in their performance or sales, it will be useful to use directional indicator. This is because in directional indicator, it can help an organization to identify the improvement or the progress of their performance such as their sales or rundown of the company from time to time. This will ease them in looking or identifying what is the reason or factors of the success. It can be the same for them to identify their problems as well if there happen to be a loss rather than profit so they could identify the problem and solve it before it leads to another crisis of an organization or company. It is not a comparison or competition in between the types of indicators but rather depends on own perspectives values and respective importance by an organization or company. Depending on their goal to get from the performance indicators and select which is the one that suits them using it.

ETHICS IN INTERNATIONAL BUSINESS

Business Ethics:

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

Determinants of Ethical Behavior:

Organization culture

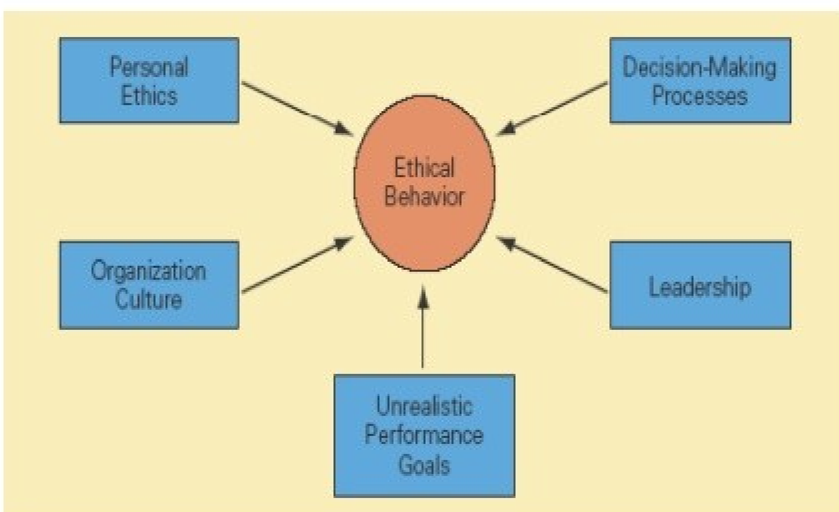
Personal ethics

Decision making processes

Leadership

Unrealistic / realistic performance goals

The Roots of Unethical Behavior:



Ethical Decision Making

Five things that an international business and its managers can **do** to make sure ethical issues are considered

– Favor hiring and promoting people with a well-grounded sense of personal ethics

– Build an organizational culture that places a high value on ethical behavior

– Make sure that leaders within the business not only articulate the rhetoric of ethical behavior, but also act in a manner that is consistent with that rhetoric

– Implement decision-making processes that require people to consider the ethical dimension of business decisions

– Develop moral courage

The Role of Ethics in International Business

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

Specific ethic problems that rise in international affairs are due to several factors, amongst which:

- the diversity of political and law regulation systems;
- the diversity of economical organizing forms and levels of economic development;
- insufficient regulations, especially in less developed countries;
- existing conflicts between national and regional economic interests;
- the influenced area and power of the multinational corporations, as well as their ability to elude law regulations;
- corruption in some areas of the world.

Unit-5

Virtual Business

A virtual business is any business that conducts all or most of its business via the internet. It may or may not have some kind of physical presence such as an office or warehouse but there isn't a physical location that customers can visit. Here are the basics of virtual business, some examples of industries that are particularly well-suited to go virtual, and the pros and cons of making the switch.

A virtual business is one that focuses on its digital capabilities to scale back its physical presence. While virtual businesses are united in their efforts to move work online, they all retain different levels of physical operations.

In the most extreme example, all employees work virtually, and the "headquarters" is wherever the CEO lives. In less extreme examples, virtual businesses may still have a headquarters where employees work, or they may have a warehouse where employees prepare packages to ship to customers.

How Does a Virtual Business Work?

As anyone who has worked in an office can attest to, the vast majority of work can be completed with a computer. Virtual businesses take advantage of that by trimming unnecessary costs. This could include outsourcing nearly all of its business functions such as product development, marketing, sales, and shipping.

Ex: Amazon started as an online bookstore that specialized in ebooks, but it has since become the biggest and best-known example of a virtual business. In the first quarter of 2020, Amazon netted more than $75 billion in sales from e-commerce, cloud computing services, and even Whole Foods a brick-and-mortar grocery chain that Amazon acquired in 2017.

Pros and Cons of Virtual Businesses:

Pros:

Brick-and-mortar cost savings: Reducing the need for employee workspace and retail space saves money on overhead costs associated with physical businesses—also known as brick-and-mortar businesses. These costs include commercial building leases, utility bills, insurance premiums, and more.

Flexibility: A less rigid organization can react faster to changes in the marketplace.

Happier employees: Working from home creates a better work/life balance for staff.

Larger employee base: Since employees can work anywhere, organizations can provide employment in rural locations or areas of high unemployment.

Cons:

Lack of institutional cohesiveness: Employees being located in diverse regions, with possible language and cultural differences, can cause a lack of cohesive company identity and culture.

Potential communication issues: A lack of face-to-face interaction between employees and teams can cause communications-related issues.

Increased likelihood of lost productivity: It's harder to ensure consistent productivity from employees who lack self-discipline when they're working from home.

Business Process Re-Engineering (BPR)

Business process re-engineering is the radical redesign of business processes to achieve dramatic improvements in critical aspects like quality, output, cost, service, and speed. Business process reengineering (BPR) aims at cutting down enterprise costs and process redundancies on a very huge scale.

Five steps of business process reengineering (BPR)

1.Map the current state of your business processes

Gather data from all resources–both software tools and stakeholders. Understand how the process is performing currently.

2. Analyze them and find any process gaps or disconnects

Identify all the errors and delays that hold up a free flow of the process. Make sure if all details are available in the respective steps for the stakeholders to make quick decisions.

3. Look for improvement opportunities and validate them

Check if all the steps are absolutely necessary. If a step is there to solely inform the person, remove the step, and add an automated email trigger.

4. Design a cutting-edge future-state process map

Create a new process that solves all the problems you have identified. Don't be afraid to design a totally new process that is sure to work well. Designate KPIs for every step of the process.

5. Implement future state changes and be mindful of dependencies

nform every stakeholder of the new process. Only proceed after everyone is on board and educated about how the new process works. Constantly monitor the KPIs.

E-auction:

An e-auction is a transaction between sellers (the auctioneers) and bidders (suppliers in the business to business scenarios) that takes place on an electronic marketplace. E-auction is the process of conducting an auction to sell assets, natural resources or other goods through online competitive bidding. It can occur business to business, business to consumer, or consumer to consumer, and allows suppliers to bid online against each other for contracts against a published specification. The successful bidders then deposit the balance amount, after which they are issued a delivery order against which they can take delivery of the asset or resource from the seller.

Types of e-auction

Classic reverse auction – Multiple sellers compete to obtain the buyer's business. The buyer can see all the offers and may choose which they would prefer. Predominantly used for procurement.

English auction –English auctions are where bids are announced by either an auctioneer or the bidders, and winners pay what they bid to receive the object. The most common and straightforward form of e-auction, they're intuitive, user-friendly, and can help to reduce transaction costs.

Dutch auction – Dutch auctions start at a high price, which is then incrementally lowered until a buyer accepts the price. The first person to bid wins the auction, which makes them good for quick decisions.

Japanese auction – Here the buyer sets a high price which decrements at pre-set amounts at pre-set intervals e.g. £500 every 2 hours. If a supplier is happy to provide the goods and services at that price, the transaction then goes ahead.

The process of a B2B e-auction in brief

Determine the 'lot strategy' – A lot is the term for the item(s) that engage suppliers to submit bids i.e. the products or services that are being sold. A lot strategy is therefore the seller's strategic combination of these items to increase competition and the opportunity to reduce costs.

Train participants – A pre-auction training session allows suppliers to overview the auction tool, answer any questions, and hold a mock auction.

Conduct and monitor the e-auction – Ensuring the bidding activity is running smoothly is essential. A buyer or company representative should be ready to intervene if problems need solving.

Evaluation of bids – The sourcing team and user departments conduct post-auction analysis based on pre-defined criteria.

Consumer-to-consumer E-auctions – The C2C marketplace has increased over time too, with more companies entering the space to facilitate C2C transactions. Popular among sellers looking to maximize their sales potential by connecting with customers they otherwise would not reach.

The benefits of a B2B e-auction in brief

For buyers

An e-auction provides procurement professionals with competitive prices for their products, pitching the suppliers directly against each other to see who can offer the lowest prices. It also streamlines the procurement process and saves time, since each supplier is not required to submit a full proposal.

For suppliers

E-auctions tend to be open, allowing smaller businesses to compete in the process, which in turn also enables suppliers to compete in new sectors. A winning bid can lead to more business, as most buyers will look to source their 'non-core' products from their existing supplier.

E-Banking

E-banking or Electronic Banking refers to all the forms of banking services and transactions performed through electronic means. It allows individuals, institutions and businesses to access their accounts, transact business, or obtain information on various financial products and services via a public or private network, including the internet.

Popular Types of E-banking Services in India

Internet Banking:

It is the type of electronic banking service which enables customers to perform several financial and non-financial transactions via the internet. With internet or online banking or net-banking, customers can transfer funds to another bank account, check account balance, view bank statements, pay utility bills, and much more.

Mobile Banking:

This electronic banking system enables customers to perform financial and non-financial transactions via mobile phone. Most of the banks have launched their mobile banking applications available on Google Playstore and Apple App Store. Just like the net-banking portal, customers can use the mobile application to access banking services.

ATM:

Automated Teller Machines (ATM) is one of the most popular types of e-banking. ATMs allow customers to withdraw funds, deposit money, change Debit Card PIN, and other banking services. To make use of an ATM, the user must have a password. Banks charge a nominal fee from the customers on every transaction made after crossing the specified limit of free transactions if the transaction is done from any other bank's ATM.

Debit Cards:

Almost every person owns a debit card. This card is connected to your bank account and you can go cashless with this card. You can use your debit card for all types of transactions, the transaction amount is debited from your account instantly.

Deposit and Withdraws (Direct):

This service under e-banking offers the customer a facility to approve paychecks regularly to the account. The customer can give the bank an authority to deduct funds from his/her account to pay bills, instalments of any kind, insurance payments, and many more.

Pay by Phone Systems:

This service allows the customer to contact his/her bank to request them for any bill payment or to transfer funds to some other account.

Point-of-Sale Transfer Terminals:

This service allows customers to pay for the purchase through a debit/credit card instantly.

Services Provided through E-banking in India:

Telephone Banking	ATMs (Automated Teller Machines)
Electronic Clearing Cards	Mobile Banking
Door-step Banking	Bill Payment
Shopping	Smart Cards
Funds Transfer	Internet Banking
Electronic Funds Transfer System	Electronic Clearing Services
Telebanking	Investing
Fixed Deposits	Insurance

Electronic trading:

E-Trade Financial Corporation is a financial services company, which offers an electronic trading platform to trade financial assets including common stocks, preferred stocks, futures contracts, exchange-traded funds, options, mutual funds, and fixed income investments. This refers to a method of trading securities, financial derivatives or foreign exchange electronically. Both buyers and sellers use the internet to connect to a trading platform such as an exchange-based system or electronic communication network (ECN).

Also known as e-trading, such methods grew in popularity in the 1990s thanks to technological advances, and are now rapidly taking over from more traditional methods such as physical trading floors and phone trading.

Types of E- Trading:

Day Trading

Day Trading is one of the most common forms of trading. It's a short term strategy where you buy and sell securities on the same day. Traditionally this type of trading was normally carried out by professional traders. In recent years improvements in technology and the emergence of a wide range of online CFD trading websites means non-professional traders can also trade in these types of securities.

Position Trading

Position trading is a longer term strategy where traders buy and hold securities for longer periods of time. This type of trading often involves keeping securities for weeks and even months. The decisions to buy and sell are normally based on extensive research of market trends and predicting changes in the market in the future. The trader buys at the beginning of a trend and sells when the trend reaches is height.

Swing Trading

During certain stages of a trend, Swing Trading often takes place. This type of trading takes advantage of the price 'swings' that occur during certain stages of the lifecycle of a particular trend. Traders try to predict highs and lows during a trend based on their research and data they collect for a specific security. Unlike day trading, Swing Trading involves keeping trades for more than a day to maximize the gains made when a trend gains momentum.

Scalping

Scalping is a fast way to trade. With this trading method, traders take advantage of gaps created by bidding and asking spreads and order flows. A profit is made by selling at an asking price that's higher than the spread or buying price of a security. The fact that this is a short term strategy reduces the risk taken by traders. More often than not, Scalping involves smaller amounts, smaller profits per trade and more frequent trading by traders who are also known as scalpers.

Online CFD Trading

CFD's or Contracts for Difference products let traders speculate on the price movements of various types of stocks on the market. When you're trading CFD products you don't own the stock. You simply buy the right to speculate on its market price change in the future which could result in a rise or fall in value.

Virtual Currency:

Virtual currency is a type of unregulated digital currency. It is not issued or controlled by a central bank. Examples of virtual currencies include Bitcoin, Litecoin, and XRP. Digital currencies are stored in and transacted through designated software, applications, and networks in digital form. Virtual currencies are typically issued by private issuers and used among specific virtual communities. The security of the software and networks that virtual currencies stand on is a critical concern.

The traditional regulated currencies are backed by sovereign debts (fiat currency) or hard assets such as gold. In contrast, virtual currencies are not backed with no intrinsic value. The value of a virtual currency is mainly driven by the sentiment of traders. As a result of its unregulated nature, a virtual currency can experience extensive price fluctuations.

Types of Virtual Currency

1. Centralized: A centralized virtual currency has a central administrator or repository. The central administrator of a virtual currency is typically the issuer of that currency. The role is similar to a central bank in a regulated currency system. XRP is an example of centralized virtual currency.

2. Decentralized: Conversely, a decentralized currency does not have a third-party central administrator or repository. Instead, a distributed system will authenticate the transactions of a decentralized virtual currency.

Advantages of Virtual Currencies

1**. Convenient**

The major advantage of virtual currencies is convenience. Payments with virtual currencies are fast and easy due to their network-based nature. The use of virtual currencies is especially convenient in international transactions.

2. Decentralized

Additionally, decentralization also avoids intermediaries. It lowers transaction costs and avoids the security failure of the central administrator.

Disadvantages of Virtual Currencies

1. Lacks comprehensive regulation

The regulations over virtual currencies are not comprehensive or systematic enough, hindering their worldwide acceptance. Lacking supervision from a central administrator, decentralized virtual currencies provide opportunities for illegal transactions and money laundering.

2. Highly volatile

Out of the charge of a central bank, the value of a virtual currency is highly volatile. Therefore, it is a less favorable tool to store value or medium of exchange. For example, Bitcoin peaked at the end of 2017 at nearly $20,000 per unit. It later dropped to around $3,000 per unit within one year.

3. Potential security issues

Virtual currencies also raise security concerns. Despite improving encryption techniques, the loss or leakage of authentication information is still possible and can cause great losses to virtual currency owners.