UNIT-1

INTERNATIONAL BUSINESS

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more nations. Usually, private companies undertake such transactions for profit governments undertake them for profit and for political reasons.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country.

An MNE is often called multinational corporation (MNC) or transnational company (TCN).

Well known MNCs include fast food companies such as McDonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor Company and Toyota, consumer electronics companies like Samsung, LG and Sony, and energy companies such as Exxon Mobil, Shell and BP.

Most of the largest corporations operate in multiple national markets.

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

The conduct of international operations depends on companies' objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

OPERATIONS

Objectives: sales expansion, resource acquisition, risk minimization

MEANS

Modes: importing and exporting, tourism and transportation, licensing and franchising, Turnkey operations, management contracts, direct investment and portfolio investments.

FUNCTIONS:

Marketing, global manufacturing and chain supply management, accounting,

Finance, human resources

OVERLAYING ALTERNATIVES: choice of countries, organization and control mechanisms

PHYSICAL AND SOCIETAL FACTORS

- Political policies and legal practices
- Cultural factors
- Economic forces
- Geographical influences

Competitive factors

- Major advantage in price, marketing, innovation, or other factors.
- Number and comparative capabilities of competitors
- Competitive differences by country

THERE HAS BEEN GROWTH IN GLOBALIZATION IN RECENT DECADES DUE TO THE FOLLOWING EIGHT FACTORS:

- Technology is expanding, especially in transportation and communications.
- Governments are removing international business restrictions.
- Institutions provide services to ease the conduct of international business.
- Consumers know about want foreign goods and services.
- Competition has become more global.
- Political relationships have improved among some major economic powers.
- Countries cooperate more on transnational issues.
- Cross-national cooperation and agreements.

STUDYING INTERNATIONAL BUSINESS IS IMPORTANT BECAUSE:

- Most companies are either international or compete with international companies.
- Modes of operation may differ from those used domestically.
- The best way of conducting business may differ by country.
- An understanding helps you make better career decisions.
- An understanding helps you decide what governmental policies to support.

TRADE

Trade is the voluntary exchange of goods, services, or both. Trade is also called commerce. A mechanism that allows trade is called a market.

The original form of trade was barter, the direct exchange of goods and services. Later one side of the barter were the metals, precious metals (poles, coins), bill, and paper money. Modern traders instead generally negotiate through a medium of exchange, such as money.

As a result, **buying** can be separated from **selling**, or earning. The invention of money (and later credit, paper money and non-physical money) greatly simplified and promoted trade.

Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade.

Trade exists for man due to specialization and division of labor, most people concentrate on a small aspect of production, trading for other products.

Trade exists between regions because different regions have a comparative advantage in the production of some tradable commodity, or because different regions' size allows for the benefits of mass production. As such, trade at market prices between locations benefits both locations.

FREE TRADE ADVANCED FURTHER IN THE LATE 20TH CENTURY AND EARLY 2000S:

- 1992 European Union lifted barriers to internal trade in goods and labour.
- January 1, 1994 the North American Free Trade Agreement (NAFTA) took effect
- 1994 The GATT Marrakech Agreement specified formation of the WTO.
- January 1, 1995 World Trade Organization was created to facilitate free trade, by mandating mutual most favored nation trading status between all signatories.
- EC was transformed into the European Union, which accomplished the Economic and Monetary Union (EMU) in 2002, through introducing the Euro, and creating this way a real single market between 13 member states as of January 1, 2007.
- 2005, the Central American Free Trade Agreement was signed; It includes the United States and the Dominican Republic.

DEVELOPMENT OF MONEY

The first instances of money were objects with intrinsic value. This is called commodity money and includes any commonly-available commodity that has intrinsic value; historical examples include pigs, rare seashells, whale's teeth, and (often) cattle. In medieval Iraq, bread was used as an early form of money. In Mexico under Montezuma cocoa beans were money.

Currency was introduced as standardized money to facilitate a wider exchange of goods and services. This first stage of currency, where metals were used to represent stored value, and symbols to represent commodities, formed the basis of trade in the Fertile Crescent for over 1500 years.

CURRENT TRENDS

The Doha round of World Trade Organization negotiations aims to lower barriers to trade around the world, with a focus on making fairer for developing countries.

Talks have been hung over a divide between the rich, developed countries, and the major developing countries (represented by the G20).

Agricultural subsidies are the most significant issue upon which agreement has been hardest to negotiate.

By contrast, there was much agreement on trade facilitation and capacity building.

ORGANIZATION OF TRADE

PATTERNS OF ORGANIZING AND ADMINISTERING TRADE INCLUDE:

State control - trade centrally controlled by government planning.

Laws regulating Trade and establishing a framework such as trade law, tariffs, support for intellectual property, opposition to dumping.

Guild control - trade controlled by private business associations holding either de facto or government-granted power to exclude new entrants.

In contemporary times, the language has evolved to business and professional organizations, often controlled by academia. For example in many states, a person may not practice the professions of engineering, law enforcement, medicine and teaching unless they have a college degree and, in some cases, a licence.

Free enterprise - trade without significant central controls; market participants engage in trade based on their own individual assessments of risk and reward, and may enter or exit a given market relatively unimpeded.

Infrastructure in support of trade, such as banking, stock market,

Technology in support of trade such as electronic commerce, vending machines.

INVESTMENT

Investment or **investing** is a term with several closely-related meanings in business management, finance and economics, related to saving or deferring consumption. Investing is the active redirection of resources: from being consumed today, to creating benefits in the future; the use of assets to earn income or profit.

- ❖ An investment is a choice by an individual or an organization such as a pension fund, after at least some careful analysis or thought, to place or lend money in a vehicle (e.g. property, stock securities, bonds) that has sufficiently low risk and provides the possibility of generating returns over a period of time.

- ❖ Placing or lending money in a vehicle that risks the loss of the principal sum or that has not been thoroughly analyzed is, by definition speculation, not investment.

- An asset is usually purchased, or equivalently a deposit is made in a bank, in hopes of getting a future return or interest from it.
- The word originates in the Latin "vestis", meaning garment, and refers to the act of putting things (money or other claims to resources) into others' pockets.
- The basic meaning of the term being an asset held to have some recurring or capital gains. It is an asset that is expected to give returns without any work on the asset per se. The term "investment" is used differently in economics and in finance.
- Economists refer to a real investment (such as a machine or a house), while financial economists refer to a financial asset, such as money that is put into a bank or the market, which may then be used to buy a real asset.

IN BUSINESS MANAGEMENT

The **investment** decision (also known as capital budgeting) is one of the fundamental decisions of business management: Managers determine the investment value of the assets that a business enterprise has within its control or possession.

These assets may be physical (such as buildings or machinery), intangible (such as patents, software, goodwill), or financial (see below). Assets are used to produce streams of revenue that often are associated with particular costs or outflows.

All together, the manager must determine whether the net present value of the investment to the enterprise is positive using the marginal cost of capital that is associated with the particular area of business.

IN ECONOMICS

In economics, investment is the production per unit time of goods which are not consumed but are to be used for future production.

Examples include tangibles (such as building a railroad or factory) and intangibles (such as a year of schooling or on-the-job training). In measures of national income and output, gross investment(represented by the variable I) is also a component of Gross domestic product (GDP), given in the formula $GDP = C + I + G + NX$, where C is consumption, G is government spending, and NX is net exports.

Thus investment is everything that remains of production after consumption, government spending, and exports are subtracted.

IN FINANCE

1. In finance, investment is the commitment of funds by buying securities or other monetary or paper (financial) assets in the money markets or capital, or in fairly liquid real assets, such as gold, real estate, or collectibles.

2. Valuation is the method for assessing whether a potential investment is worth its price. Returns on investments will follow the risk-return spectrum.
3. Types of financial investments include shares, other equity investment, and bonds (including bonds denominated in foreign currencies).
4. These financial assets are then expected to provide income or positive future cash flows, and may increase or decrease in value giving the investor capital gains or losses.
5. Within personal finance, money used to purchase shares, put in a collective investment scheme or used to buy any asset where there is an element of capital risk is deemed an investment.
6. Saving within personal finance refers to money put aside, normally on a regular basis. This distinction is important, as investment risk can cause a capital loss when an investment is realized, unlike saving(s) where the more limited risk is cash devaluing due to inflation.

IN REAL ESTATE

In real estate, investment money is used to purchase property for the purpose of holding or leasing for income and there is an element of capital risk.

RESIDENTIAL REAL ESTATE

The most common form of real estate investment as it includes property purchased as a primary residence. In many cases the buyer does not have the full purchase price for a property and must engage a lender such as a bank, finance company or private lender.

Different countries have their individual normal lending levels, but usually they will fall into the range of 70-90% of the purchase price. Against other types of real estate, residential real estate is the least risky.

COMMERCIAL REAL ESTATE

Commercial real estate consists of multifamily apartments, office buildings, retail space, hotels and motels, warehouses, and other commercial properties. Due to the higher risk of commercial real estate, loan-to-value ratios allowed by banks and other lenders are lower and often fall in the range of 50-70%.

FORMS OF INTERNATIONAL BUSINESS

- Trade
- International licensing of technology and intellectual property (trademarks, patents and copyrights)
- Foreign direct investment

TRADE

- Exporting
- Importing
- Government controls over trade: tariffs and non-tariff barriers
- Role of trade in services

TRADE

- Exporting: shipment of goods or the rendering of services to a foreign buyer
- Importing: process of buying goods from a foreign supplier and entering them into the customs territory of a different country

GOVERNMENT CONTROLS OVER TRADE

- Tariffs: import duties or taxes imposed on goods entering the customs territory of a nation
- Why impose?

  Revenue collection, protection of domestic industry, political control

  - Non-tariff Barriers: all barriers to importing or exporting other than tariffs ex. product standards
  - Quota: restriction imposed by law on the numbers or quantities of goods or of a particular type of good
  - Embargo: a total or near total ban on trade with a particular country e.g. used against Iraq in 1990

TRADE IN SERVICES

- Travel, banking, insurance and securities, professional services (law & architecture)

Intellectual Property and Licensing

- Definitions

  Copyrights: legal rights to an artistic or written work

  Trademarks: the legal right to use a name or symbol; that identifies a firm or its product

  Patents: governmental grants to inventors assuring them of the legal right to produce, use and sell their invention for a period of years

International Licensing Agreements

- International licensing agreements: contracts by which the holder of intellectual property will grant certain rights in that property to a foreign firm to use for a period of time under certain conditions in return for a licensing fee
- How does this work as a business model?
- Technology transfer: exchange of technology and know how between firms in different countries through licensing

Protecting Intellectual Property is a key issue for your business

- Inventory and secure your intellectual property as you would a building
- Difficult, Why?
- What is piracy?

Legal and Political Issues in Technology Transfer Agreements

- Regulated by some governments
- generally in Asia, Latin America, and the Middle East
- terms restricted to benefit the developing country

Foreign Direct Investment

- Ownership and active control of ongoing business concerns including investment in manufacturing, mining, farming and other production facilities
- Multinational corporation
- Wholly owned foreign subsidiary
- Joint venture
- Mergers and acquisitions

International Framework for Trade

- Trade liberalization: efforts of governments to reduce tariffs and non-tariff barriers
- General Agreement on Tariffs and Trade, 1947
- Sets rules on how member nations will regulate international trade
- WTO: 1995 came into existence

How do you manage the risks of international business?

- Consider "The management of international business is the management of risk."

Managing Risk: Risk Assessment

- Market entry strategy
- Shifting the risk
- Using the contract to fix responsibility, allocate risk and price accordingly
- Payment and credit risk, property risk, delivery risk
- Managing distance and communications

Managing Risk

- Managing language and cultural differences
- Managing currency and exchange rate risk

Ethical Issues

- Bribes?
- Child labor?
- Different working conditions and wages?
- Corporate response?

Contracts Clauses of the Intellectual Property's Protection

- Geographic limit
- Field of use limitations
- Output/ customer restrictions
- Confidentiality
- Ownership/use
- Disclose improvements
- Grant back
- Termination
- Non competition

Franchising: International Licensing Pitfalls

- Duration
- Royalty
- Trademark protection
- Competition laws
- Tied purchase
- Geographic exclusivity
- Repatriation

INDIA'S TRADE POLICY

1. To address the perceived fear of people such as

   - Loss of jobs, distrust on foreign traders and companies, rich getting richer, poor becoming poorer.
   - Rich country exploit opportunies since they are better placed in resources & innovation.
   - Help entrepreneurs exploit opportunities in global arena

- Use trade as powerful tool to create jobs
- Calibrate globalization to minimize pains
- People to cope with challenges & emerge stronger
- to articulate vision, objectives to draw road map
- In a nutshell economic development of country
- FTDR 1992 empowers central govt. to notify eipp
- Policy is to create legal frame work to regulate imports& exports & give effect to promotional measures.
- Creates rights & obligations in legal documents.

FOREIGN TRADE (DEVELOPMENT& REGULATION ACT, 1992 (FTDR, 1992)

OBJECTIVE:

Development & regulation of foreign trade by

--- facilitating import

--- augmenting exports

Rules unders this act (salient features)

Section: 3

Enabling govt. To make development & regulation of foreign trade

Prohibiting, restricting & regulating imports and exports

Section 5:

Enables govt.to formulate, amend &announce exim policy

Section 6:

To appoint dgft (director general of foreign trade) to advise govt.

In formulating exim policy for implementation

Section; 7

Import/export can be made by a person holding after An importer/exporter code number

Section 8 and 9:

Provide for issue, renewal, refusal or cancellation of importer/exporter code number or license

Section 10 and 14:

Provide for search and seizure, fiscal penalty/confiscation and reasonable opportunities to the owner

Section 15&17:

Provide for revision, appeal &powers of adjudicating authorities

Section; 18 & 20

Protects action taken in good faith

Ftdr, 1992 have provisions in making rules

Rule 15:

Provides for search and seizures

Rule 16:

Provides for settlement

Rule 17 & 18

Provide for confiscation and redemption of goods & conveyance Foreign trade (exemption from application of rules) order, 1993 Details all categories of imports and exports which are exempt.

TRADE POLICY RESOLUTION 1970

Historical perspective

- Objective of the central govt. Since independence was to increase exports and diversify efforts
- "Export policy resolution 1970" was tabled in the parliament in 1970, was adopted in terms of guidelines as a land mark in the history of exports.

CERTAIN REDEEMING FEATURES:

1) Export earnings to be expanded at a high rate to achieve self reliance.
2) Lays great stress on the development and expansion of export oriented industries.
3) Adoption of appropriate policies and measures to achieve the objective is imperative as high export potentials are there in many areas.

4) Consolidation in traditional products exports & identifying products having long term potential.
5) Evolve suitable policies & measures to encourage export oriented industries.
6) To assist industries to
   -- making their products competitive
   -- moulding machinery
   -- improving quality control
   --- providing marketing aids
   -- providing adequate and timely finance
   -- providing adequate shipping facilities at
   Reasonable freight rates.
7) Major changes in 1985 for 3 year policy from 1985-1988.
8) When economy opened and liberalized in 1991, 5 years policy
9) 1992-1997 exim policy focused on liberalization, openness,
10) Transparency, globalization, incentives, export promotion schemes and simplified procedures.

ROLE OF EXPORT PROMOTION COUNCIL (EPC)

What are epcs and who control them?

- Epcs are non profit organization registered under ‘company’s act, 1956’ or ‘society’s registration act, 1870’.
- Supported by financial assistance from central govt.
- Autonomous and regulate their own affairs.
- Members are exporters and they elect their own office bearers.

Role of epc

1. Protect our countries image abroad as reliable supplier of quality goods and services.
2. Encourage exporters to observer international standards and specifications.
3. Keep abreast of trends and opportunities in the inte formational markets for goods and services

4. Assist members to take advantages of opportunities for expansion and diversification.
5. Providing commercially useful information assistance to develop and increase exports.
6. Offering professional advice to members in
    - Technology up gradation.
    - Quality and design improvement.
    - Standards and specifications.
    - Product development and innovation
7. Organizing visits to foreign countries to

    Explore overseas markets and Participation in trade fairs, exhibitions and buyer/seller meet in India and abroad.
8. Promoting interaction between exporters and govt. Officials.
9. Building statistical data base and provide data on Exports of the country/their members as well as international data. There are 19 epcs covering the various products; --- 12 under ministry of commerce. & 7 under ministry of textiles.

OTHER INFORMATIONS ABOUT EPC

How to approach and contact epc?

Refer appendix—27 for getting details of all epcs with their address, contact numbers-mail etc.

Then contact the epc that deals with main line of business and product.

What to do if number of products are more?

For the purpose of getting benefits under the exim policy, registration with one epc will do.

If furnishing bond with excise authorities for removal of export goods without payment of duty, registration with concerned epc is required.

Overcoming this problem of many registration, one way is to registration with fieo (federation of Indian export organisation.it is valid for the entire product group.

FOREX MANAGEMENT

What is foreign exchange?

- An expression to denote foreign currency
- Also covers the method by which a currency of one country is exchanged for that of another.

Characteristics of foreign exchange market
'An Over the Counter market'

- No physical presence in the same sense as a stock exchange or commodity market
- The participants deal among themselves and settle their transactions directly
- There is no exchange or clearing house.

Only market open 24 hours

FX Market is a 24 hour market

- It starts when a calendar business day opens in Sydney, Tokyo, Hong Kong, Singapore and then moves to Middle East to Europe to New York to the West Coast of United States where the calendar business comes to a close
- FX Market operates seven days a week (Middle East Markets function on Saturdays and Sundays)
- Effectively it is a 24 hour a day / seven days a week / 365 days a year Market!

No single location – no barriers

- FX market is not located in a single building
- No specific market place exists
- FX market has few restrictions in this modern world
- FX market is global in nature / character
- While the market does not exist at each and every center in the world, it is accessible from any part of the world.

Exchange rates fluctuate every four second

Settlement of transactions normally does not take place simultaneously

Highly liquid market

Money / capital / debt markets also impact FX market

Foreign exchange rates

Exchange rate is the rate at which one currency is exchanged for another currency. That is, the number of units of one currency which exchange for given number of units of another currency is the rate of exchange

Therefore an exchange rate is a simple arithmetical statement which gives value of one currency in terms of another currency

TYPES OF EXCHANGE RATES

- Fixed and Floating exchange rates
- Direct and indirect exchange rates
- Buying and selling
- Spot and forward
- Working of forward rates

1. Fixed and floating exchange rates

- Fixed exchange rate is the official rate set by the monetary authorities for one or more currencies.
- Under floating exchange rate, the value of the currency is decided by supply and demand factors

2. Direct and indirect exchange rates

Direct method - Under this, a given number of units of local currency per unit of foreign currency is quoted. They are designated as direct/certain rates because the rupee cost of single foreign currency unit can be obtained directly. Direct quotation is also called home currency quotation.

Indirect method – Under this, a given number of units of foreign currency per unit of local currency is quoted. Indirect quotation is also called foreign currency quotation

3. Buying and selling

Exchange rates are quoted as two way quotes – for purchase and sale transactions

4. Spot and forward

The delivery under a foreign exchange transaction can be settled in one of the following ways

- Ready or cash – To be settled on the same day
- Tom – To be settled on the day next to the date of transaction
- Spot – To be settled on the second working day from the date of contract
- Forward – To be settled at a date farther than the spot date

5. Working of forward rates

- Spot prices of the currencies involved
- Interest rate differential for the currencies
- Future period for which the price is worked

FACTORS INFLUENCING EXCHANGE RATES

Short term factors

- Commercial
- Financial

Long term factors

- Currency and economic conditions
- Political and industrial conditions

Risks in foreign exchange market

A risk is an unplanned event with financial consequences resulting in loss or reduced earnings. When we analyze risks in foreign exchange market, we should start with international trade as with out international trade no foreign exchange can be generated.

International trade characteristics

- Buyer and seller in different countries
- Goods and value of goods move in opposite direction
- Currencies of buyer and the seller have their own values which undergo change

INTERNATIONAL TRADE RISKS

Buyer risk

- Non-acceptance risk
- Non-payment risk
- Quality claim risk
- Credit risk

Seller risk

- Non-shipment risk
- Quality goods not supplied
- Late shipment risk

Shipping risk

- Goods mishandled
- Goods abandoned
- Goods siphoned
- Goods wrongly delivered
- Goods delivered at another destination
- Goods appropriated for freight payment
- Transhipment risk

Other risks

- Bank failure risk
- Settlement risk
- Competition
- Genuineness of documents
- Price risk
- Legal risk
- Spread risk
- Market risk

Risks in foreign exchange operations

- Exchange risk
- Settlement risk
- Liquidity risk
- Country risk
- Sovereign risk
- Interest rate risk
- Operational risk

Management of exchange risk

- Identify all areas of risk
- Evaluate these risks
- Set various exposure limits
- Issue clear policy guidelines / directives

Derivative products

Derivative instruments are derived from the values of the underlying exposures such as commodities, currencies or shares and bonds which when added to the exposures will neutralize or alter to acceptable levels, the uncertainty profile of the exposures. They are also expressed as hedging instruments

Forward contracts

Simplest of all the derivative products. Forward contract is a mechanism through which the rate is fixed in advance for purchase or sale of foreign currency at a future date. In such an arrangement, the risk of loss, which might accrue on account of adverse movement in the rate of exchange, is sought to be removed

Options

One essential feature of a forward contract is that once one has locked into a rate in a forward contract, he cannot benefit from the movement of the market in his favour. Options are unique financial instruments in that they enable the option holder (or buyer of option) to maximize his profits at the same time limiting his losses. This is possible as options confer upon the holder the right (to buy or sell) without the obligation (to buy or sell)

Swaps

A swap means an exchange of specific streams of payments over an agreed period of time between two parties, referred to as counter parties. The essence of a swap contract is the binding of two counter parties to exchange two different payment streams over time, the payment being tied at least in part to subsequent and uncertain market price developments. In most cases the prices concerned have been exchange rates and / or interest rates

Futures

Futures are specialized contracts to buy or sell a standard quantity of an item at a specified future date and at a fixed price that is agreed when the contract is made. Futures are traded on futures exchange.

The above definition applies to any futures contract – commodity futures or financial futures. The main difference is that for many financial futures contracts instead of physical delivery there is only a cash settlement on the delivery date

FOREIGN EXCHANGE MANAGEMENT IN INDIA

It is a three tier set up in India the participants being – the individuals / corporate (who have or need foreign exchange), the authorized dealer banks and the FEDAI / RBI at the apex level.

Guidelines relating to foreign exchange management

All foreign exchange transactions are to be routed through Authorized Dealers for whom guidelines are issued by RBI under the provisions of Foreign Exchange Management Act

UNIT-2

INTRODUCTION

Globalization:

Deepening relationships and broadening interdependence among people from different countries.

International business:

All business transactions, private and governmental, that involves two or more countries

Two reasons for studying globalization and international business:

- The growth of globalization creates both opportunities and threats for individuals, companies, and countries.

- The conduct of international business is distinct from that of domestic business because companies must operate in diverse foreign environments and must engage in specialized types of transactions, such as exporting and importing and currency conversion

Why Countries Need International Business

Three primary reasons include:

(1) **Availability**

Natural advantage: the ability to produce due to readily available resources such as minerals and agricultural products

Acquired advantage: based on research and development

- Most new products originate and find their largest markets in the wealthier countries such as the United States, Germany, Japan, France, the United Kingdom, and Italy
- The fastest growth area in world trade has been in services, which has grown from less than 4% to more than 20% of world trade between 1980 and 1999
- Manufacturing now accounts for less than 20% of the economies of the wealthier countries

(2) Cost

- The production of various goods and services requires different combinations of inputs
- The cost of these inputs varies from one country to another for a variety of complex reasons

(3) Comparative advantage

- When an individual, firm, or country uses its resources to specialize in the production of those goods and services that are most productive and profitable, it is producing according to comparative advantage
- Comparative advantage implies specialization.

The Growth of Globalization

Companies' abilities to exchange goods and services internationally, shift production to other countries, and learn from abroad about more efficient means of operating have been growing because of

(1) Technological developments,
(2) Rising incomes,
(3) Liberalization of cross-border movements, and
(4) More cooperative arrangements among countries

- These four factors interplay and affect each other

- **Foreign direct investment** (FDI): investment that results in the foreign control of a domestic enterprise

- **Technological developments:**
  - Developments in communications and transportation are at the forefront of technologies that push globalization
- **Rising incomes:**
  - Global discretionary income has risen to the point that there is now widespread demand for products that would have been considered luxuries in the past
  - As incomes grow, so does tax revenue

- Much of the revenue goes to programs and projects that enhance the potential of international business

- **Liberalization of cross-border movements:**
  - Every country restricts the movement across its borders of goods and services as well as the resources to produce them
  - Governments today impose fewer restrictions on cross-border movements than they did a decade or two ago for three main reasons:
  - Idea of open economies
    - Greater efficiency by competing against foreign companies
    - Other countries will follow their example
- **Cooperation among countries:**
  - Countries cooperate in many ways through international organizations, treaties, and consultations
  - Countries cooperate to:
    - Gain reciprocal advantages
    - Attack problems that cannot be solved alone
    - Deal with concerns lying outside anyone's territory

Advantages and Challenges of Globalization

- As the largest economy in the world, the United States has a profound impact on other countries
- Countries face challenges as they try to maximize positive effects from globalization while minimizing negative ones
  - These are usually trade-offs, such as low consumer prices versus minimal employment disruption
  - The possible trade-offs from globalization are almost unlimited

Advantages and Challenges of Globalization

- **Productivity:** the amount of output relative to the amount of input
  (1) Globalization allows the benefits of productivity developments in one nation to move more quickly to other nations
  (2) A downside to this transfer is that individuals and companies must adjust to compete
- **Consumers**
  (1) Consumers benefit from globalization through their ability to choose from a greater variety of products and services and to buy from cheaper production locations
  (2) A potential problem is the consumers' weaker control over supplies from foreign countries

- **Employment**

(1) Globalization allows the benefits of productivity developments in one nation to move more quickly to other nations
(2) Critics of globalization contend that the quality, as well as the quantity, of jobs should be considered

- **The Environment**
  (1) Many of the most desired resources are in the poorest areas of the world where people can benefit economically from exploiting these resources
  (2) On the other hand, concern is high over the depletion of finite resources, potential climatic changes, and despoliation of the environment

- **Monetary and fiscal conditions**
  (1) An advantage of globalization is that money, if allowed to move freely, should go where it will be most needed and have the highest productivity
  (2) Monetary, fiscal, and regulatory differences remain
- **Sovereignty**
  (1) Globalization may undermine sovereignty in two ways:
  (2) Contact with other countries creates more cultural borrowing
  (3) Countries are concerned that important decisions may be made abroad that will undermine their national well-being

What Makes International Business Different?

- **Different National Environments:**

  (1) Most countries vary internally, causing companies to alter their business practices from one region to another
  (2) To conduct business successfully abroad, companies must often adopt practices other than what they are accustomed to domestically

- **Legal-Political Environment:**

  (1) Companies that conduct business internationally are subject to the laws of each country in which they operate
  (2) Political relationships between countries also influence what companies can do internationally
  (3) There are sometimes differences in laws between countries
- **Economic Environment**

  (1) In fact, the average income in most of the world's countries is very low
  (2) Generally, poor countries have smaller markets on a per capita basis, less educated populations, higher unemployment or underemployment, poor health conditions, greater supply problems, higher political risk, and more foreign exchange problems

➢The Cultural Environment

(1) Culture: refers to the specific learned norms of a society based on attitudes, values, beliefs, and frameworks for processing information and tasks
(2) These norms vary from one country to another

➢Mobility

(1) Impediments to the movement of goods and the inputs to produce them are more pronounced among countries than within them

WTO & LIBERALIZATION

Introduction

(1) Liberalization of Business Activities or Trades is essential for the economical growth of the country
(2) Liberalization brings about
(3) Liberalized trading (imports / exports)
(4) More opportunities for expanding globally
(5) More open to foreign participation and technology
(6) Improves competitiveness
(7) More effective and dynamic fi

Introduction…

(1) Liberalization of Trade activities has come to existence through ways of Trade Agreements / Treaties and International Organizations
(2) One such organization which plays a significant role in the global business environment is World Trade Organization (WTO)

GATT - Predecessor of WTO

- GATT was born on 1948 with the objective of liberalizing trade internationally
- This was an outcome of the recommendations made in Bretton Woods Conference (1944)
- IMF (1946)
- World Bank (1946)
- ITO
- ITO was not ratified as it was conceived to interfere in the domestic policy making of the different countries.
- GATT was created just a provisional agreement until ITO was formed.
- This framed the international trading system principles, rules and procedures

GATT Objectives

■Expand International Trade
■Liberalizing trade and bring about economic prosperity

- Raising standard of living

- Ensuring full employment
- Full use of the resources of the world
- Expansion of production and international trade

GATT Achievements

- Achievements
- Continuing Consultation for Dispute Settlement
- Trade Liberalization
- Exceptions: Agriculture & Textile
- Average Tariffs on Manufactured products in industrial countries was brought down from 40% (1947) to 3 % (after UR, 1994)

Uruguay Round

- This was the eighth round of GATT
- It was launched in Punta del Este in Uruguay in September 1986
- It extended upto 15th April 1994
- It was actually scheduled to be concluded by December 1990 but extended until 1994 due to the complexities of the issues discussed and the conflicts among the participating countries

- Arther Dunkel, then Director General of GATT, presented a draft of what the conference would result in.
- This was popularly known as the 'Dunkel Draft'
- Later this was modified and enlarged and became the final draft which was approved by the member countries on 15th December 1993
- The final draft was signed by them on 15th April 1994

- Until UR, only Tariffs and Trade of Goods were concentrated.
- After UR, the scope was broaden to new areas such as
    - Trade in Services (GATS)
    - TRIPs
    - TRIMs

GATT vs. WTO

GATT	WTO
It was ad hoc and was provisional	Its agreement are permanent
It had contracting parties	It has members

It allowed existing legislations to continue even if it violates	It does not permit this
Less powerful, dispute settlement system was slow and less efficient and its ruling could be easily blocked	More powerful, dispute settlement is more faster and more efficient, very difficult to block the rulings

World Trade Organization

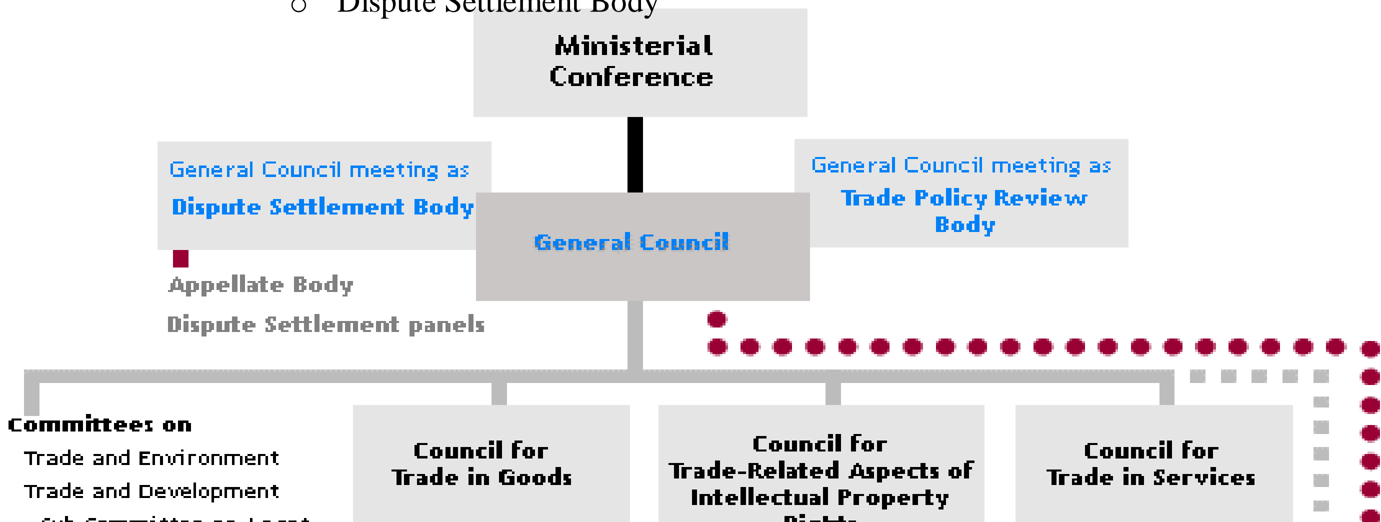
- Formed in 1 January 1995
- The WTO was essentially an extension of GATT
- Only global international organization
- Deals with rules of trade between nations
- Agreements are negotiated and signed by the trading nations and ratified by their Parliaments
- It was the outcome of the lengthy (1986-1994) Uruguay round of GATT negotiations.

WTO - Structure

- It has 150 members as on 11 January 2007
- They account for about 90% of the world trade
- India is a member since 1 January 1995
- The latest member of WTO is Vietnam on 11 January 2007
- Around 31 countries are acting as Observer Government
- Decisions are made be the entire membership on a consensus basis

WTO - Organization Structure

- Top - Level Decision Making : Ministerial conference
- Next Level : General Council
- Trade Policy Review Body
- Dispute Settlement Body



WTO – Objective

- To help producers of goods and services, exporters and importers conduct their business
- Main function
- To ensure that trade flows as smoothly, predictably and freely as possible.

WTO – Functions

- The main objective is achieved through the following functions
- Ensure that the rules are ‘transparent’ and predictable
- Settle trade related disputes
- Administering trade agreements
- Acting as a forum for trade negotiations
- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programmers
- Cooperating with other international organizations

WTO – Principles

- Trade Without Discrimination

- No Most Favored Nation (MFN) Treatment - no special deals to trading partners, all members of WTO must be treated the same
- No National Special Treatment - locals and foreigners are treated equally
- Freer Trade
- Predictability through Binding - promising not to raise tariffs is called binding a tariff and binding leads to greater certainty for businesses
- Promoting Fair Competition
- Encouraging Development and Economic Reform

WTO - Arguments For

- Promotes peace
- Disputes are handled constructively
- Rules make life easier for all
- Freer trade cuts the costs of living
- More choice of products and qualities
- Trade raises income
- Trade simulates economic growth
- Basic principle makes life more efficient

WTO - Arguments Against

- Dictate policy
- For free trade at any cost
- Commercial interest take priority over development
- Commercial interest take priority over the environment
- Commercial interest take priority over health and safety
- Destroys jobs, worsens poverty
- Small countries are powerless
- Tool for powerful lobbies

GATS

- International Delivery of Service
- Cross-border Supply
- Commercial Presence
- Consumption Abroad
- Movement of Personnel

WTO Impact

- GATT/GATS
- TRIPs
- TRIMs

WTO Impact…

- GATT/GATS - Liberalization of Trade in Goods/Services
- Increases Competition from foreign goods/services
- Facilitates Global Sourcing
- Opportunity for Indian firms to export
- Threats to domestic market
- Increases competitiveness of domestic market
- Benefits consumer

WTO Impact…

- TRIPs - Provides monopoly power to owners of intellectual property
- TRIMs - Liberalization of International Investments
- Increases foreign investment and competition from foreign firms
- Facilitates joint ventures and technology acquisition
- Facilitates foreign investment by Indian firms (JV)
- Threat to domestic firms
- Benefits the economy
- Benefits the domestic firms

REGIONAL TRADE BLOCKS

Reasons Why Trade Blocs Get Formed

- Geographical proximity and often the sharing of common borders as in the European Union and NAFTA
- Common economic and political interests as in the European Union and the ASEAN
- Similar ethnic and cultural backgrounds as in the Free Trade of the Americas
- Similar levels of economic development as in the European Union
- Similar views on the mutual benefits of free trade as in NAFTA
- Regional political needs and considerations as in the ASEAN

Major Regional Economic Agreement Initiatives

•The North American Free Trade Agreement (NAFTA)

–U.S.A, Canada, and Mexico

–Went into effect on January 1, 1994

•Free Trade Area of the Americas

–Proposal to expand NAFTA to include all countries in the Western Hemisphere, except Cuba

–This region accounts for 37% of all U.S. trade, $155 billion in American investment, 800 million people, and a $13 trillion economy

Major Regional Economic Agreement Initiatives (contd.)

•The Association of Southeast Asian Nations (ASEAN)

–Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia

–Total population of 500 million, area of 4.5 million square kilometers, GDP of U.S. $737 billion, a total trade of U.S. $ 720 billion

•Mercado Comun del Sur (MERCOSUR)

–Argentina, Brazil, Paraguay, and Uruguay

–Market of nearly 200 million people, area of about 12.5 million square miles, combined gross regional product in excess of $800 billion, and Latin America's largest industrial base

•The European Union (EU)

–15 countries currently members

–Market area of 320 million people

–Historically known as the Common Market

–Created after World War II

–Similarities between EU and the United States

Major Regional Economic Agreement Initiatives (contd.)

–Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia set to join EU on May 1, 2004

–Bulgaria and Romania hope to do so by 2007

–To join the EU, countries need to fulfill economic and political conditions known as the 'Copenhagen Criteria.'

Specific Drivers of Globalization

- Tremendous growth in international trade and commerce
- Innovations in information technology and transportation
- Porous borders between countries
- The globalization of financial markets
- The creation of a global labor force
- Rapidly falling freight costs

Factors Multinationals Must Consider Prior to Deciding Entry Mode

- Determine the key success factors for the business, i.e. the conditions that must be present in the foreign market in order to succeed in achieving the objectives of the market entry
- Study whether these conditions exist in the target market
- Determine changes in implementation strategies that would be required in order to succeed in the target market

POLITICAL ENVIRONMENT OF IB

Collectivism vs. individualism (economic freedom)

–The state must manage enterprises if they are to benefit society as a whole.

Political risk

Political risk:

- The risk or probability of occurrence of some political event(s) that will change the prospects for the profitability of a given investment.

Examples:

–Mass expropriation, changes in taxation, price control, environmental regulations, and constraints aimed directly at foreign firms (such as limitations on repatriation of capital, expatriate employment, and foreign ownership, and local content regulations).

Measures for political risk

- *The Economist* rankings - countries in trouble
- Business Environment Risk Intelligence (BERI) Political Risk Index
- Political risk Service (PRS)

The Economist 1986 rankings - countries in trouble

•Politics: 50, Econ: 33, Social: 17. Higher scores indicate higher risk.

•Politics:

–being near a superpower or troublemaker (3)
–Authoritarianism (7)
–longevity of regime (5)
–generals in power (6)
–war/armed insurrection (2)
–Illegitimacy (9)

•Society:

–pace of urbanization (3)
–Islamic fundamentalism (4)
–Corruption (6)
–Ethic tension (4)

Econ: Falling GDP per capita, Inflation, Foreign debt as a proportion of GDP, Decline in food production per capita, raw materials as a high percent of exports.

Business Environment Risk Intelligence (BERI) Political Risk Index

–since 1987, 70 experts

–7 points to each of the following 10 variables. Plus 30 bonus points

–Higher scores indicate lower risk.

•Internal causes of political risk

•External causes of political risk:

•Symptoms of political risk

Political Risk Service (PRS)

•Since 1979, 250 experts, cover 199 countries as of 1993. Projection is adjusted for alternative future governments.

Variables:

–political turmoil probability: actions that do not fully adhere to laws or social norms.
–Equity restriction
–Personnel/procurement interference
–Taxation discrimination
–Repatriation restriction
–Exchange controls
–Tariff and non tariff barrier imposition
–Payment delays (limitations on movement of funds)
–Fiscal/monetary expansion
–Labor cost expansion
–International borrowing liability

How well do these measures work?

•Howell and Chaddick (1994) compare the projections of these three measures against losses incurred in the 87-92 period.

•*The Economist* index:

–Correlations: 0.33.

–Stepwise regression explains 44% of variance in losses.

–Most important variables:

•BERI:

–Correlations: 0.51

–Stepwise regression explains 53% of variance in actual losses

–Most important variables:

•PRS:

–Correlations: 0.57

–Stepwise regression accounts for 74% of variances in actual losses

–Most important variables:

More on political risk

•Government corruption: the abuse (or misuse) of public power for private (personal) benefit.

Coping with corruption in foreign markets

•Costs of corruption:

–Direct: Bribes, bureaucratic delays, avoidance, direct unproductive behavior, engaged with organized crime.

–Indirect: reduced investment, reduced and distorted public expenditures, macroeconomic weakness and instability, weak infrastructure, misdirected entrepreneurial talent, socio-econon failure.

Two dimensions of Corruption

•Pervasiveness (or level): the number and frequency of transactions that involve illicit activities.

•Arbitrariness: lack of coordination among corrupt agents.

UNIT-3

STRUCTURAL DESIGN OF MNEs

MNEs

- Multinational enterprises (MNEs) are playing more and more important roles in the development of world economic.
- Indeed, the largest 500 MNEs account for over 90% of the world's stock of foreign direct investment (FDI).

Definition

- The MNEs is defined as a firm with value-added activities in at least two countries.
- The definition of globalization is very critical in this paper.
- The objective of organizational design (OD) is to provide, Maintain, and develop organizational structures that work toward the achievement of corporate goal.
- OD helps to create a workable structure of tasks and positions that create the physical organization and jobs.

Organizational structure

- Organizational structure is ultimately driven by strategy.
- Strategy is shaped by organizational structure, because structure provides a constraint to action.

- Organization structure is relatively immobile in short run, and can made change in long run.

What is the purpose of Organization structure?

- Global integration and local responsiveness.
- Every business seeks efficiency and effective structures to organize tasks.
- In the global environment, structures take on different forms in order to effectively answer cultural demands and respond to global environments.

MNE strategy and Design

- A plan designed to achieve a particular long term aim.
- The art of planning and directing military activity in a war or battle.

Types of Strategies

There are three main strategies global corporation use:

- The transactional strategy
- The global strategy
- The multi-domestic strategy

The transactional strategy

- The transactional strategy seeks to achieve global efficiency and local responsiveness.
- It has a shared vision under a corporate umbrella, but alters operations for local demands.

The global strategy

- The global strategy has relative stability across markets in order to facilitate and operational control.

The multi-domestic strategy

- The multi-domestic strategy has strategic and operational decisions allocated to business units in each country.
- It permits customization, but interferes with economy of scale.

<u>STRATEGIC PLANNING</u>

What is strategic planning?

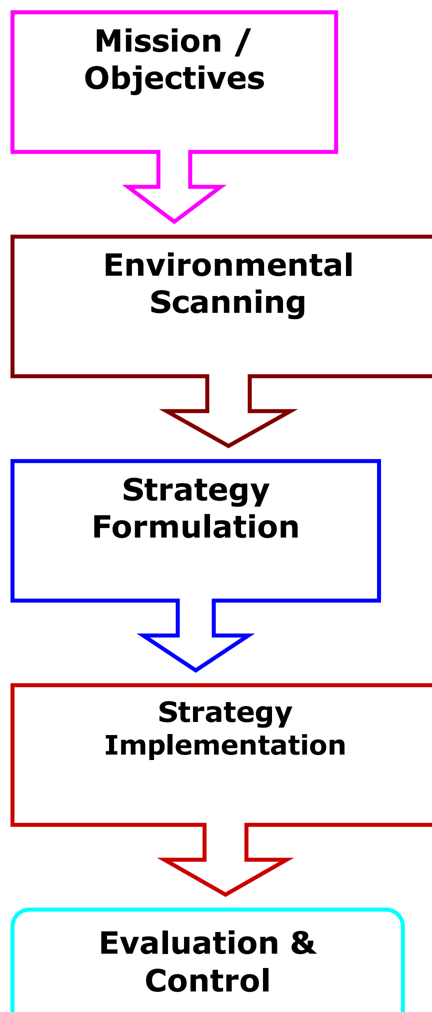
- A strategy is an overall approach and plan. So, strategic planning is the overall planning that facilitates the good management of a process.
- It provides you with the big picture of what you are doing and where you are going. Strategic planning gives you clarity about what you actually want to

achieve and how to go about achieving it, rather than a plan of action for day-to-day operations.

Vision

- Any organization has a vision of how it could or should be in the future.
- This vision is not something they can achieve on their own.
- The vision is the starting point for any strategic framework.
- Your mission includes the particular way in which your organization intends to make a contribution towards your vision.
- A mission statement describes what the organisation does, with whom or for whom it does it, and, in broad terms, how it does it.

STRATEGY PLANNING PROCESS



OBJECTIVES are strategic targets that provide pathways and mechanisms to achieve each strategic initiative. These objectives are especially powerful when paired together to accomplish the strategic initiative.

Environmental Scanning done by two Analyses:

- Internal Analysis
- External Analysis

    - The internal environment is the shape and fitness of the organization.
    - Internal analysis tries to identify potential inhibitors that diminish organizational effectiveness.
    - An inhibitor is a mismatch between the structure or activities of the organization and its direction.

Tools for Internal Analysis

The internal environment analysis is done by the following tools:

- Internal health check
- Portfolio Analysis
- SWOT Analysis (Strengths, weaknesses, opportunities, and threats)

External Environment

Analysis of the external environment normally focuses on the customers. Management should be visionary in formulating customer strategy.

- PEST analysis
  (Political, economic, social, and technological analysis) or
- STEER analysis
  (Socio-cultural, technological, economic, ecological, and regulatory factors)
- EPISTEL analysis
  (Environment, political, informatics, social, technological, economic and legal).

Strategy Formulation

- By collecting the information from the environmental scan the firm should match its strength to its opportunity.
- And at the same time the firm should look at its weakness and external threats.
- To attain superior profitability, the firms has to seek the competitive advantages.
- It can be based on the cost or differentiation.

Strategy Implementation

- The selected strategy is implementing by means of Programs, Budget & Procedures.
- The implementation involves mainly the firm's resources and motivation of the staff to achieve objectives.
- Proper communication should be made for the strategy to all levels of the employees.
- Otherwise the implementation might not be successful.

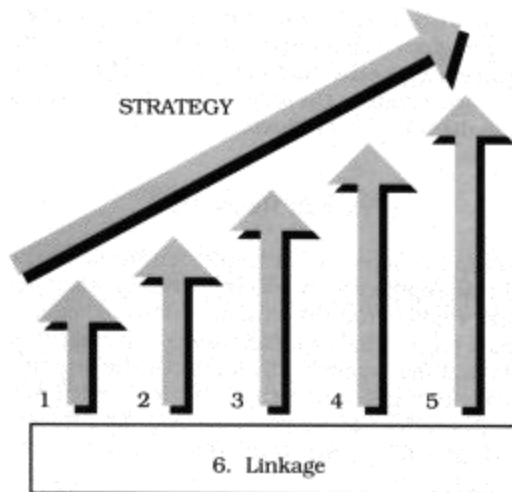
Evaluation & Control

- The implementation of the strategy must be monitored & adjustment made as needed.

STRATEGY IMPLEMENTATION

Organizations successful at strategy implementation effectively manage six key supporting factors:

1. Action Planning
2. Organization Structure
3. Human Resources
4. The Annual Business Plan
5. Monitoring and Control
6. Linkage.



Action Planning

First, organizations successful at implementing strategy develop detailed action plans... in sequence lists of action steps (tactics) which add the necessary detail to their strategies. And assign responsibility to a specific individual for accomplishing each of those action steps. Also, they set a due date and estimate the resources required to accomplish each of their action steps. Thus they translate their broad strategy statement into a number of specific work assignments.

Organizational Structure

Next, those successful at implementing strategy give thought to their organizational structure. They ask if their intended strategy fits their current structure. And they ask a deeper question as well... "Is the organization's current structure appropriate to the intended strategy?"

We're reminded here of a client we worked with some years ago. The company was experiencing problems implementing its strategy calling for the development of two new products.

The reason the firm had been unable to develop those products was simple... they had never organized to do so. Lacking the necessary commitment for new product development, management didn't establish an R&D group. Rather, it assigned its manufacturing engineering group the job of new product development... and hired two junior engineers for the task. Since the primary function of the manufacturing engineering group was to keep the factory humming, those engineers kept getting pulled

off their "new product" projects and into the role of the manufacturing support. Result – no new products.

Human Resource Factors

Organizations successful at strategy implementation consider the human resource factor in making strategies happen. Further, they realize that the human resource issue is really a two part story. First, consideration of human resources requires that management think about the organization's communication needs. That they articulate the strategies so that those charged with developing the corresponding action steps (tactics) fully understand the strategy they're to implement.

Second, managers successful at implementation are aware of the effects each new strategy will have on their human resource needs. They ask themselves the questions... "How much change does this strategy call for?" And, "How quickly must we provide for that change?" And, "What are the human resource implications of our answers to those two questions?"

The Annual Business Plan

Organizations successful at implementation are aware of their need to fund their intended strategies. And they begin to think about that necessary financial commitment early in the planning process. First, they "ballpark" the financial requirements when they first develop their strategy. Later when developing their action plans, they "firm up" that commitment. As a client of ours explains, they "dollarize" their strategy. That way, they link their strategic plan to their annual business plan (and their budget). And they eliminate the "surprises" they might otherwise receive at budgeting time.

Monitoring & Control

Monitoring and controlling the plan includes a periodic look to see if you're on course. It also includes consideration of options to get a strategy once derailed back on track. Those options (listed in order of increasing seriousness) include changing the schedule, changing the action steps (tactics), changing the strategy or (as a last resort) changing the objective. (For more on this point, see "Monitoring Implementation of Your Strategic Plan.")

Linkage - The Foundation for Everything Else

Many organizations successfully establish the above five supporting factors. They develop action plans, consider organizational structure, take a close look at their

human resource needs, fund their strategies through their annual business plan, and develop a plan to monitor and control their strategies and tactics. And yet they still fail to successfully implement those strategies and tactics. The reason, most often, is they lack linkage. Linkage is simply the tying together of all the activities of the organization...to make sure that all of the organizational resources are "rowing in the same direction."

It isn't enough to manage one, two or a few strategy supporting factors. To successfully implement your strategies, you've go to manage them all. And make sure you link them together.

Strategies require "linkage" both vertically and horizontally. Vertical linkages establish coordination and support between corporate, divisional and departmental plans. For example, a divisional strategy calling for development of a new product should be driven by a corporate objective – calling for growth, perhaps –- and on a knowledge of available resources –- capital resources available from corporate as well as human and technological resources in the R&D department.

COMPETITIVENESS

It is a comparative concept of the ability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market. Although widely used in economics and business management, the usefulness of the concept, particularly in the context of national competitiveness, is vigorously disputed by economists, such as Paul Krugman.

The term may also be applied to markets, where it is used to refer to the extent to which the market structure may be regarded as perfectly competitive. This usage has nothing to do with the extent to which individual firms are "competitive'.

ORGANIZATIONS AND GLOBAL COMPETITIVENESS

- Markets and Management core course
- **Objective:** to analyze the sources, both structural and strategically, of organizational competitiveness in a global environment
- Focus on analysis of industry level information

Challenges: Industry Analysis

- Application of concepts and frameworks to industry analysis
- Transformation of “data” into information
- Organic organization of information
- Electronic “space” management
- Appropriate language and image management

Challenges: Technology

- Initial skill levels: assessment and training
- Infrastructure: Hardware, software, electronic team space, training space
- Support staff: electronic research, regular web training, emergency support

Challenges: Time/Instructor

- General Training: At least one session on electronic research, at least one on Web design
- Development and review of on-line tutorials and help-guides
- Review of preliminary assignment, outline, first draft and final webpage
- Two follow-up meetings with each team
- Emergency computer assistance for the last week of the project
- Collection and organization of evaluations
- Grading

FIRM COMPETITIVENESS

Empirical observation confirms that resources (capital, labor, technology) and talent tend to concentrate geographically (Easterly and Levine 2002). This result reflects the fact that firms are embedded in inter-firm relationships with networks of suppliers, buyers and even competitors that help them to gain competitive advantages in the sale of its products and services.

While arms-length market relationships do provide these benefits, at times there are externalities that arise from linkages among firms in a geographic area or in a specific industry (textiles, leather goods, silicon chips) that cannot be captured or fostered by markets alone. The process of "clusterization," the creation of "value chains," or "industrial districts" are models that highlight the advantages of networks.

NATIONAL COMPETITIVENESS

In recent years, the concept of competitiveness has emerged as a new paradigm in economic development. Competitiveness captures the awareness of both the limitations and challenges posed by global competition, at a time when effective government action is constrained by budgetary constraints and the private sector faces significant barriers to competing in domestic and international markets.

The term is also used to refer in a broader sense to the economic competitiveness of countries, regions or cities. Recently, countries are increasing looking at their competitiveness on global markets. Ireland (1997), Greece (2003), Croatia (2004), Bahrain (2005), the Philippines (2006), Guyana and the Dominican Republic are just some examples of countries that have advisory bodies or special government agencies

that tackle competitiveness issues. Even regions or cities, such as Dubai or the Basque Country, are considering the establishment of such a body.

The institutional model applied in the case of National Competitiveness Programs (NCP) varies from country to country, however, there are some common features. The leadership structure of NCPs relies on strong support from the highest level of political authority. High-level support provides credibility with the appropriate actors in the private sector. Usually, the council or governing body will have a designated public sector leader (president, vice-president or minister) and a co-president drawn from the private sector. Notwithstanding the public sector’s role in strategy formulation, oversight, and implementation, national competitiveness programs should have strong, dynamic leadership from the private sector at all levels – national, local and firm. From the outset, the program must provide a clear diagnostic of the problems facing the economy and a compelling vision that appeals to a broad set of actors who are willing to seek change and implement an outward-oriented growth strategy.

Finally, most programs share a common view on the importance of networks of firms or “clusters” as an organizing principal for collective action. Based on a bottom-up approach, programs that support the association among private business leadership, civil society organizations, public institutions and political leadership can better identify barriers to competitiveness; develop joint-decisions on strategic policies and investments; and yield better results in implementation.

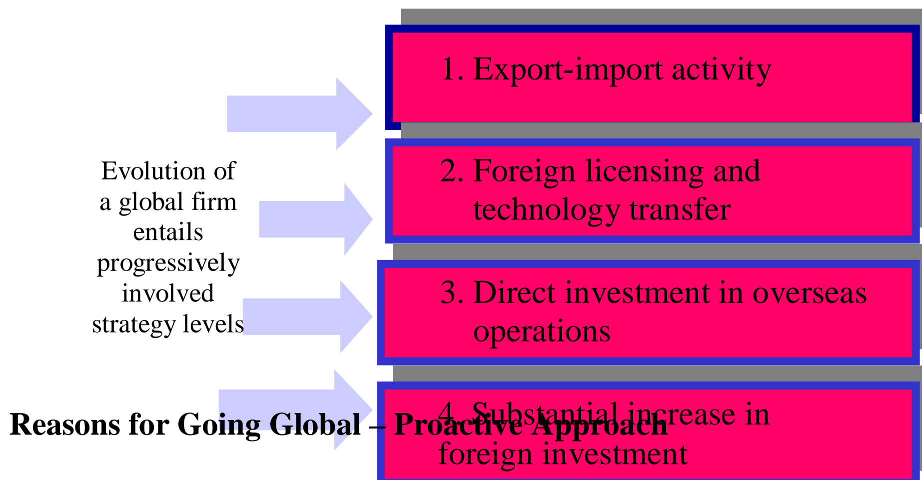
National competitiveness is said to be particularly important for small open economies, which rely on trade, and typically foreign direct investment, to provide the scale necessary for productivity increases to drive increases in living standards. The Irish National Competitiveness Council uses a Competitiveness Pyramid structure to simplify the factors the affect national competitiveness. It distinguishes in particular between policy inputs in relation to the business environment, the physical infrastructure and the knowledge infrastructure and the essential conditions of competitiveness that good policy inputs create, including business performance metrics, productivity, labour supply and prices/costs for business.

Competitiveness is important for any economy that must rely on international trade to balance import of energy and raw materials. The European Union (EU) has enshrined industrial research and technological development (R&D) in her Treaty in order to become more competitive. In 2009, €12 billion of the EU budget (totalling €133.8 billion) will go on projects to boost Europe's competitiveness. The way for the EU to face competitiveness is to invest in education, research, innovation and technological infrastructures.

STRATEGY CONSIDERATION

The Global Environment: Strategic Considerations for Multinational Firms

DEVELOPMENT OF A GLOBAL CORPORATION



Reasons for Going Global – Proactive Approach

- Additional resources
- Lowered costs
- Incentives
- New, expanded markets
- Exploitation of firm-specific advantages
- Taxes
- Economies of scale
- Synergy
- Power and prestige
- Protect home market via offense in competitor's home

Reasons for Going Global – Reactive Approach

- Trade barriers
- International customers
- International competition
- Regulation
- Chance

Strategic Orientation of Global Firms

- ***Ethnocentric***
  - Values and priorities of parent organization should guide strategic decision making of all operations
- ***Polycentric***
  - Culture of country in which strategy is implemented dominates decision making
- ***Regiocentric***
  - Parent firm attempts to blend its own predispositions with those of region under consideration
- ***Geocentric***

•Parent firm adopts global systems approach to decision making, emphasizing global integration

ORIENTATION OF A GLOBAL FIRM

	Ethnocentric	**Polycentric**
Mission	Profitability (viability)	Public acceptance (legitimacy)
Governance	Top-down	Bottom-up
Strategy	Global integration	National responsiveness
Structure	Hierarchical product divisions	Hierarchical area divisions, with autonomous national divisions
Culture	Home country	Host country
Technology	Mass production	Batch production
Marketing	Product development determined by needs of home-country customers	Local product development based on local needs
Finance	Repatriation of profits to home country	Retention of profits in host country
Personnel practices	People of home country developed for key positions everywhere	Local people developed for key positions in their country

	Regiocentric	**Geocentric**
Mission	Both profitability and public acceptance	Same as regiocentric
Governance	Mutually negotiated between region and its subsidiaries	Mutually negotiated at all levels of the corporation
Strategy	Regional integration and national responsiveness	Global integration and national responsiveness
Structure	Product and regional organization tied through a matrix	Network of organization (includes stakeholders and competitors)
Culture	Regional	Global

Technology	Flexible manufacturing	Flexible manufacturing
Marketing	Standardize within region, but not across regions	Global product, with local variations
Finance	Redistribution within region	Redistribution globally
Personnel practices	Regional people developed for key positions anywhere in region	Best people everywhere developed for key positions everywhere

Factors Contributing to Complexity of Global Strategic Planning

- Globals face multiple political, economic, legal, social, and cultural environment as well as various rates of changes within each of them
- Interactions between national and foreign environments are complex because of national sovereignty issues and widely differing economic and social conditions
- Geographic separation, cultural and national differences, and variations in business practices tend to complicate communication and control efforts between headquarters and overseas affiliates
- Globals face extreme competition due to differences in industry structure
- Globals are restricted in selecting competitive strategies by various regional blocs and economic integrations

Factors Increasing Degree to Which an Industry is Multidomestic

- Need for customized products to meet tastes or preferences of local customers
- Fragmentation of industry, with many competitors in each national market
- Lack of economies of scale in functional activities of firms in industry
- Distribution channels unique to each country
- Low technological dependence of subsidiaries on R&D provided by global firm

Reasons Why Strategic Management Planning Must be Global

- The increased scope of the global management task
- The increased globalization of firms
- The information explosion
- The increase in global competition
- The rapid development of technology
- Strategic management planning breeds managerial confidence

Factors Making for the Creationof a Global Industry

- Economies of scale in functional activities of firms in industry
- High level of R&D expenditures on products requiring more than one market to recover development costs
- Presence in industry of predominantly global firms expecting consistency of products across markets

- Presence of homogeneous product needs across markets, reducing requirement of customizing products
- Low level of trade regulation and regulations regarding foreign direct investment

Factors That Drive Global Companies

Global Management Team

- Possesses global vision and culture
- Includes foreign nationals
- Leaves management of subsidiaries to foreign nationals
- Frequently travels internationally
- Has cross-cultural training

Global Strategy

- Implement strategy as opposed to independent country strategies
- Develop cross-country alliances
- Select country targets strategically
- Perform business function where most efficient
- Emphasize participation in the triad

Global Financing

- Finance globally to obtain lower cost
- Hedge when necessary to protect currency risk
- Price in local currencies
- List shares on foreign exchanges

Global Marketing

- Market global products but provide regional discretion if economies of scale are not affected
- Develop global brands
- Use core global marketing practices and themes
- Simultaneously introduce new global products worldwide

Global Operations/Products

- Use common core operating processes worldwide to ensure quantity and uniformity
- Produce globally to obtain best cost and market advantage

Global Technology/R&D

- Design global products, designing regional differences into account
- Manage development work centrally but carry out globally
- Do not duplicate R&D and product development; gain economies of scale
- The Global Challenge
- Few “pure” cases of either global or multidomestic industries exist

- The challenge – global firms must
- Decide what activities should be performed where
- Determine what degree of coordination should exist among them

UNIT-4

PERFORMANCE INDICATOR

A performance indicator or key performance indicator (KPI) is a measure of performance. Such measures are commonly used to help an organization define and evaluate how successful it is, typically in terms of making progress towards its long-term organizational goals.

KPIs can be specified by answering the question, "What is really important to different stakeholders?". KPIs may be monitored using Business Intelligence techniques to assess the present state of the business and to assist in prescribing a course of action. The act of monitoring KPIs in real-time is known as business activity monitoring (BAM).

KPIs are frequently used to "value" difficult to measure activities such as the benefits of leadership development, engagement, service, and satisfaction. KPIs are typically tied to an organization's strategy using concepts or techniques such as the Balanced Scorecard).

The KPIs differ depending on the nature of the organization and the organization's strategy. They help to evaluate the progress of an organization towards its vision and long-term goals, especially toward difficult to quantify knowledge-based goals.

IDENTIFYING INDICATORS OF ORGANIZATION

Performance indicators differ from business drivers & aims (or goals). A school might consider the failure rate of its students as a Key Performance Indicator which might help the school understand its position in the educational community, whereas a business might consider the percentage of income from return customers as a potential KPI.

But it is necessary for an organization to at least identify its KPIs. The key environments for identifying KPIs are:

- Having a pre-defined business process (BP).
- Requirements for the business processes.

- Having a quantitative/qualitative measurement of the results and comparison with set goals.
- Investigating variances and tweaking processes or resources to achieve short-term goals.

A KPI can follow the SMART criteria. This means the measure has a **S**pecific purpose for the business, it is **M**easurable to really get a value of the KPI, the defined norms have to be **A**chievable, the KPI has to be **R**elevant to measure (and thereby to manage) and it must be **T**ime phased, which means the value or outcomes are shown for a predefined and relevant period.

MARKETING OF KPIS

Among the marketing KPIs top management analyses are:

1. **Customer** related numbers:
    1. New customers acquired
    2. Status of existing customers
    3. **Customer attrition**
2. **Turnover** generated by segments of the customers - these could be demographic filters.
3. Outstanding balances held by segments of customers and terms of payment - these could be demographic filters.
4. Collection of bad debts within customer relationships.
5. Demographic analysis of individuals (potential customers) applying to become customers, and the levels of approval, rejections and pending numbers.
6. Delinquency analysis of customers behind on payments.
7. Profitability of customers by demographic segments and segmentation of customers by profitability.

Many of these aforementioned customer KPIs are developed and improved with **customer relationship management (CRM).**

This is more an inclusive list than an exclusive one. The above more or less describe what a bank would do, but could also refer to a telephone company or similar service sector company.

Faster availability of data is beginning to become a concern for more and more organizations. Delays of a month or two were commonplace. Of late, several banks have tried to move to availability of data at shorter intervals and less delays.

For example, in businesses which have higher operational/credit risk loading (that involve credit cards, wealth management), Citibank has moved onto a weekly availability of KPI related data or sometimes a daily analysis of numbers. This means that data is usually available within 24 hours as a result of automation and the use of IT.

KPIS FOR SUPPLY CHAIN MANAGEMENT

Businesses can utilize KPIs to establish and monitor progress toward a variety of goals, including lean manufacturing objectives, MBE (Minority Business Enterprise) and diversity spending, environmental "green" initiatives, cost avoidance (CA) programs and low-cost country sourcing (LCCS) targets.

Any business, regardless of size, can better manage supplier performance with the help of KPIs robust capabilities, which include:

- Automated entry and approval functions
- On-demand, real-time scorecard measures
- Single data repository to eliminate inefficiencies and maintain consistency
- Advanced workflow approval process to ensure consistent procedures
- Flexible data-input modes and real-time graphical performance displays
- Customized cost savings documentation (CSD)
- Simplified setup procedures to eliminate dependence upon IT resources.

Main SCM KPIs will detail the following processes:

- sales forecasts
- inventory
- procurement and suppliers
- warehousing
- transportation
- reverse logistics

Suppliers can implement KPIs to gain an advantage over the competition. Suppliers have instant access to a user-friendly portal for submitting standardized cost savings templates.

Suppliers and their customers exchange vital supply chain performance data while gaining visibility to the exact status of cost improvement projects and cost savings documentation (CSD).

CATEGORIZATION OF INDICATORS

Key Performance Indicators define a set of values used to measure against. These raw sets of values fed to systems to summarize information against are called **indicators**. Indicators identifiable as possible candidates for KPIs can be summarized into the following sub-categories:

- **Quantitative indicators** which can be presented as a number.
- **Practical indicators** that interface with existing company processes.
- **Directional indicators** specifying whether an organization is getting better or not.
- **Actionable indicators** are sufficiently in an organization's control to effect change.
- **Financial indicators** used in performance measurement and when looking at an operating index

PERFORMANCE MEASUREMENT

Challenges in Performance Measurement

The traditional control-oriented performance measurement system in the industrial era is losing its relevance in today's fast changing environment where organizations are re-shaped into flat multi-functional hierarchies. Performance measurement will get tougher with globalization and increasing complexity of organizations' business models, teams' roles and responsibilities.

Diversity of organizations and professionals

A huge variety of organizations exist today. For example, there are government, education, financial services, manufacturing, retail, non-profit, food and beverage. Then, there are sub-industries. In financial services, we can break down into the banks, insurance, exchange and so on. And in each, we can for example break down a bank into deposit, loan, credit card, investment departments.

Intangible and non-financial measurements

Traditionally, accountants play a major role in measuring an organisation's success. Unfortunately, annual reports do not allow managers to monitor the progress to build capabilities and acquire the intangible assets needed for future growth. Non-financial measurements will be required to link a company's long term strategy with its short term actions.

Relationship with evaluation

Performance measurement is conceptually related to other evaluation approaches. There tends to be something of a professional and conceptual divide between performance managers and evaluators, with evaluators criticizing some performance measurement approaches as being too simplistic. In particular there is the problem of attribution which is usually not dealt with well in performance measurement systems.

This relates to the discussion in the previous paragraph on intangible and non-financial measurement.

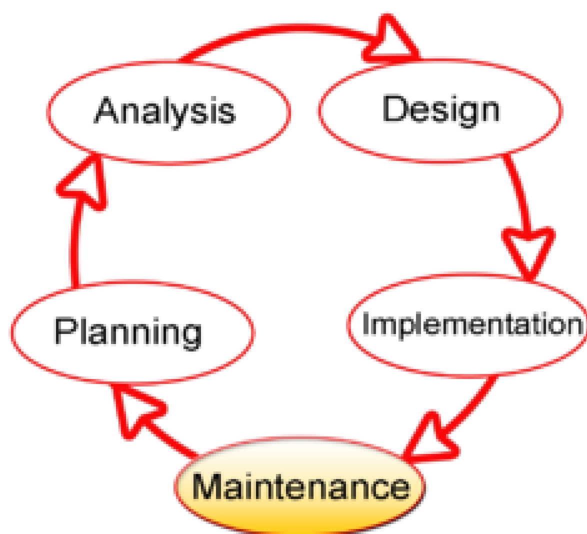
Change management practices

As with any other organizational change management program, implementing a performance measurement system will encounter resistance especially in large bureaucratic organizations. First of all, nobody likes to be measured. Self-serving managers who are experts in their field may have the freedom to choose and manipulate measures for their own benefit. Further in large, global organizations, consistency in implementation across departments may be a problem if communication and coordination is not executed well.

INFORMATION SYSTEMS

In a broad sense, the term INFORMATION SYSTEMS (IS) refers to the interaction between people, processes, and technology. This interaction can occur within or across organizational boundaries. An information system is not only the technology an organization uses, but also the way in which the organization's people interact with the technology and the way in which the technology works with the organization's business processes. Information systems are distinct from information technology in that an information system has an information technology component that interacts with the people and processes components.

INFORMATION SYSTEMS DEVELOPMENT



The Systems Development Life Cycle (SDLC), or Software Development Life Cycle in systems engineering and software engineering, is the process of creating or

altering systems, and the models and methodologies that people use to develop these systems. The concept generally refers to computer or information systems.

In software engineering the SDLC concept underpins many kinds of software development methodologies. These methodologies form the framework for planning and controlling the creation of an information system the software development process.

Systems Development Life Cycle (SDLC) adheres to important phases that are essential for developers, such as planning, analysis, design, and implementation, and are explained in the section below. There are several Systems Development Life Cycle Models in existence. The oldest model, that was originally regarded as "the Systems Development Life Cycle" is the waterfall model: a sequence of stages in which the output of each stage becomes the input for the next.

TYPES OF INFORMATION SYSTEMS

As new information technologies are developed, new categories emerge that can be used to classify information systems. Some examples are:

1. Transaction processing systems
2. Management information systems
3. Decision support systems
4. Expert systems
5. Office Automation
6. Business intelligence

Transaction processing systems

(TPS) automate the handling of data about business activities or transactions, which can be thought of as simple, discrete events in the life of an organization. Data about each transaction are captured, transactions are verified and accepted or rejected and validated transactions are stored for later aggregation. Reports may be produced immediately to provide standard summarizations of transactions and transactions may be moved from process to process in order to handle all aspects of the business activity.

The analysis and design of TPS means focusing on the firm’s current procedures for processing transactions, whether those procedures are manual or automated. The focus on current procedures implies a careful tracking of data capture ,flow ,processing and output. The goal of TPS development is to improve transaction processing by speeding it up, using fewer people, improving efficiency and accuracy, integrating it with other organizational information systems or providing information not previously available.

Management Information System

(**MIS**) is a subset of the overall **internal controls** of a business covering the application of people, documents, technologies, and procedures by management to solve business problems such as costing a product, service or a business-wide strategy. Management information systems are distinct from regular information systems in that they are used to analyze other information systems applied in operational activities in the organization. Academically, the term is commonly used to refer to the group of information management methods tied to the automation or support of human decision making, e.g. Decision Support Systems, Expert systems, and Executive information systems.

Decision support systems

It constitute a class of computer-based information systems including knowledge-based systems that support decision-making activities.

A Decision Support Systems (DSS) is a class of information systems (including but not limited to computerized systems) that support business and organizational decision-making activities. A properly designed DSS is an interactive software-based system intended to help decision makers compile useful information from a combination of raw data, documents, personal knowledge, or business models to identify and solve problems and make decisions.

Typical information that a decision support application might gather and present are:

- An inventory of all of your current information assets (including legacy and relational data sources, cubes, data warehouses, and data marts),
- Comparative sales figures between one week and the next,
- Projected revenue figures based on new product sales assumptions;

Expert System

An expert system is software that attempts to provide an answer to a problem, or clarify uncertainties where normally one or more human experts would need to be consulted. Expert systems are most common in a specific problem domain, and is a traditional application and/or subfield of artificial intelligence.

A wide variety of methods can be used to simulate the performance of the expert however common to most or all are 1) the creation of a so-called "knowledgebase" which uses some knowledge representation formalism to capture the Subject Matter Expert's

(SME) knowledge and 2) a process of gathering that knowledge from the SME and codifying it according to the formalism, which is called knowledge engineering. Expert systems may or may not have learning components but a third common element is that once the system is developed it is proven by being placed in the same real world problem solving situation as the human SME, typically as an aid to human workers or a supplement to some information system.

Office Automation

Office automation refers to the varied computer machinery and software used to digitally create, collect, store, manipulate, and relay office information needed for accomplishing basic tasks and goals. Raw data storage, electronic transfer, and the management of electronic business information comprise the basic activities of an office automation system. Office automation helps in optimizing or automating existing office procedures.

The backbone of office automation is a LAN, which allows users to transmit data, mail and even voice across the network. All office functions, including dictation, typing, filing, copying, fax, Telex, microfilm and records management, telephone and telephone switchboard operations, fall into this category. Office automation was a popular term in the 1970s and 1980s as the desktop computer exploded onto the scene.

Business Intelligence

Business intelligence (BI) refers to skills, technologies, applications and practices used to help a business acquire a better understanding of its commercial context. Business intelligence may also refer to the collected information itself.

BI technologies provide historical, current, and predictive views of business operations. Common functions of business intelligence technologies are reporting, OLAP, analytics, data mining, business performance management, benchmarking, text mining, and predictive analytics. Business intelligence often aims to support better business decision-making. Thus a BI system can be called a decision support system (DSS).

THE ROLE OF INFORMATION SYSTEMS

- **How information systems are transforming business**
- **Globalization opportunities**
- **The emerging digital firm**
- **Strategic business objectives of information systems**

  - Operational excellence
  - New products, services, and business models
  - Customer and supplier intimacy
  - Improved decision making
  - Competitive advantage
  - Survival

How information systems are transforming business

- Increased technology investments
- Increased responsiveness to customer demands: A “Fed-Ex” economy
- Shifts in media and advertising
- New federal security and accounting laws

Globalization opportunities

- Internet has drastically reduced costs of operating on global scale
- In the emerging, fully digital firm
- Significant business relationships are digitally enabled and mediated (relationships with customers, suppliers, employees)
- Core business processes are accomplished through digital networks
- Key corporate assets (intellectual property, financial and human assets) are managed digitally
- Digital firms offer greater flexibility in organization and management
- Time shifting (24x7 operation), space shifting (global workshop)

Growing interdependence between ability to use information technology and ability to implement corporate strategies and achieve corporate goals

Business firms invest heavily in information systems to achieve six strategic business objectives:

- Operational excellence (ex: WalMart)
- New products, services, and business models (ex: Apple i-Tunes)
- Customer and supplier intimacy (ex: hotel customer preferences)
- Improved decision making
- Competitive advantage (ex: Dell-mass customization)
- Survival (ex: ATM)

Operational excellence:

- Improvement of efficiency to attain higher profitability
- Information systems, technology an important tool in achieving greater efficiency and productivity
- E.g. Wal-Mart's RetailLink system links suppliers to stores for superior replenishment system

New products, services, and business models:

- Business model: describes how company produces, delivers, and sells product or service to create wealth
- Information systems and technology a major enabling tool for new products, services, business models
  - E.g. Apple's iPod, iTunes and Netflix's Internet-based DVD rentals

Customer and supplier intimacy:

- Serving customers well leads to customers returning, which raises revenues and profits
- E.g. High-end hotels that use computers to track customer preferences and use to monitor and customize environment
- Intimacy with suppliers allows them to provide vital inputs, which lowers costs
- E.g. J.C.Penney's information system which links sales records to contract manufacturer

Improved decision-making

- Without accurate information:
- Managers must use forecasts, best guesses, luck
- Leads to:
  - Overproduction, underproduction of goods and services
  - Misallocation of resources
  - Poor response times
- Poor outcomes raise costs, lose customers
- E.g. Verizon's Web-based digital dashboard to provide managers with real-time data on customer complaints, network performance, line outages, etc.

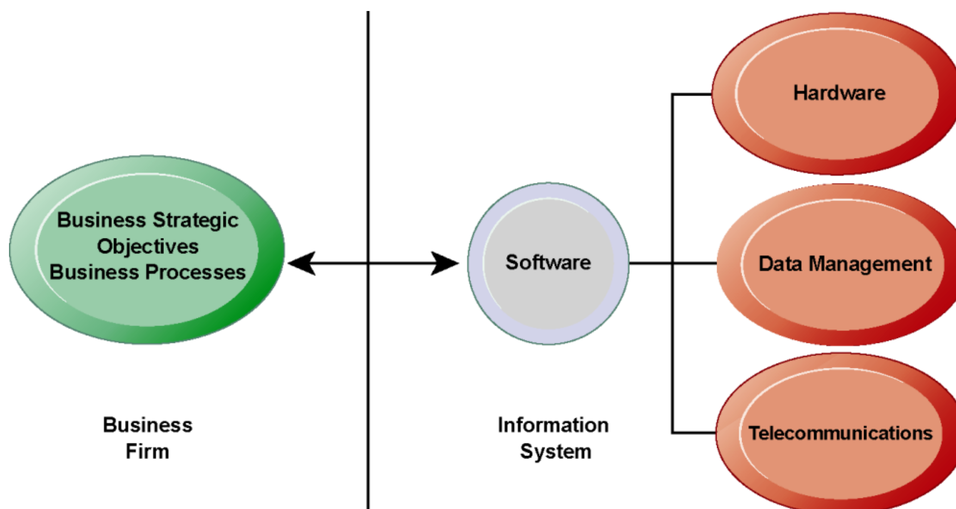
Competitive advantage

- Delivering better performance
- Charging less for superior products
- Responding to customers and suppliers in real time

- Often achieved when firm achieves one of first four advantages
- E.g. Dell: Consistent profitability over 25 years; Dell remains one of the most efficient producer of PCs in world.
- But Dell has lost some of its advantages to fast followers-- HP

Survival

- Information technologies as necessity of business
- May be:
  - Industry-level changes, e.g. Citibank's introduction of ATMs
  - Governmental regulations requiring record-keeping
  - E.g. Toxic Substances Control Act, Sarbannes-Oxley Act



There is a growing interdependence between a firm's information systems and its business capabilities. Changes in strategy, rules, and business processes increasingly require changes in hardware, software, databases, and telecommunications. Often, what the organization would like to do depends on what its systems will permit it to do.

UNIT-5

CONFLICT

Conflict is actual or perceived opposition of needs, values and interests. A conflict can be internal (within oneself) e individuals). Conflict as a concept can help explain many aspects of social life such as social disagreement, conflicts of interests, and fights between individuals, groups, or organizations. In political terms, "conflict" can refer to wars, revolutions or other struggles, which may involve the use of force as in the term armed conflict.

CONFLICT MANAGEMENT

Conflict management refers to the long-term management of intractable conflicts. It is the label for the variety of ways by which people handle grievances—standing up for what they consider to be right and against what they consider to be wrong. Those ways include such diverse phenomena as gossip, ridicule, lynching, terrorism, warfare, feuding, genocide, law, mediation, and avoidance. Which forms of conflict management will be used in any given situation can be somewhat predicted and explained by the social structure—or social geometry—of the case.

TYPES OF CONFLICT

1. Community conflict
2. Diplomatic conflict
3. Environmental resources conflict
4. External conflict
5. Interpersonal conflict
6. Organizational conflict
7. Intra-societal conflict
8. Military conflict
9. Religious-based conflict
10. Workplace conflict
11. Relationship conflict

Conflict also defines as natural disagreement resulting from individuals or groups that differ in beliefs, attitudes, values or needs. It can also originate from past rivalries and personality differences. Other causes of conflict include trying to negotiate before the timing is right or before needed information is available.

CAUSES OF CONFLICT:

1. Communication failure
2. Personality conflict
3. Value differences

4. Goal differences
5. Methodological differences
6. Substandard performance
7. Lack of cooperation
8. Differences regarding authority
9. Differences regarding responsibility
10. Competition over resources
11. Non-compliance with rules

WAYS OF ADDRESSING CONFLICT

1. **Accommodating**: Individuals who enjoy solving the other party's problems and preserving personal relationships. Accommodators are sensitive to the emotional states, body language, and verbal signals of the other parties. They can, however, feel taken advantage of in situations when the other party places little emphasis on the relationship.
2. **Avoiding**: Individuals who do not like to negotiate and don't do it unless warranted. When negotiating, avoiders tend to defer and dodge the confrontational aspects of negotiating; however, they may be perceived as tactful and diplomatic.
3. **Collaborating**: Individuals who enjoy negotiations that involve solving tough problems in creative ways. Collaborators are good at using negotiations to understand the concerns and interests of the other parties. They can, however, create problems by transforming simple situations into more complex ones.
4. **Competing**: Individuals who enjoy negotiations because they present an opportunity to win something. Competitive negotiators have strong instincts for all aspects of negotiating and are often strategic. Because their style can dominate the bargaining process, competitive negotiators often neglect the importance of relationships.
5. **Compromising**: Individuals who are eager to close the deal by doing what is fair and equal for all parties involved in the negotiation. Compromisers can be useful when there is limited time to complete the deal; however, compromisers often unnecessarily rush the negotiation process and make concessions too quickly.

COUNSELING

When personal conflict leads to frustration and loss of efficiency, counseling may prove to be a helpful antidote. Although few organizations can afford the luxury of having professional counselors on the staff, given some training, managers may be able to perform this function. Nondirective counseling, or "listening with understanding", is little more than being a good listener—something every manager should be.

CONFLICT RESOLUTION

Conflict resolution is a range of methods for alleviating or eliminating sources of conflict. The term "conflict resolution" is sometimes used interchangeably with the term dispute resolution or alternative dispute resolution. Processes of conflict resolution generally include negotiation, mediation, and diplomacy. The processes of arbitration, litigation, and formal complaint processes such as ombudsman processes, are usually described with the term dispute resolution, although some refer to them as "conflict resolution." Processes of mediation and arbitration are often referred to as alternative dispute resolution.

METHODS OF DISPUTE RESOLUTION INCLUDE:

1. lawsuits (litigation)
2. arbitration
3. collaborative law
4. mediation
5. conciliation
6. many types of negotiation
7. facilitation

One could theoretically include violence or even war as part of this spectrum, but dispute resolution practitioners do not usually do so; violence rarely ends disputes effectively, and indeed, often only escalates them. Some individuals, notably Joseph Stalin, have stated that all problems emanate from man, and absent man, no problems ensue. Hence, violence could theoretically end disputes, but alongside it, life.

Dispute resolution processes fall into two major types:

1. **Adjudicative processes**, such as litigation or arbitration, in which a judge, jury or arbitrator determines the outcome.
2. **Consensual processes**, such as collaborative law, mediation, conciliation, or negotiation, in which the parties attempt to reach agreement.

A **LAWSUIT** is a civil action brought before a court of law in which a plaintiff, a party who claims to have received damages from a defendant's actions, seeks a legal or equitable remedy. The defendant is required to respond to the plaintiff's complaint. If the plaintiff is successful, judgment will be given in the plaintiff's favor, and a range of court orders may be issued to enforce a right, award damages, or impose an injunction to prevent an act or compel an act.

ARBITRATION, a form of alternative dispute resolution (ADR), is a legal technique for the resolution of disputes outside the courts, wherein the parties to a dispute refer it to one or more persons (the "arbitrators", "arbiters" or "arbitral tribunal"), by whose decision (the "award") they agree to be bound. It is a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides. Other forms of ADR include mediation (a form of settlement negotiation facilitated by a neutral third party) and non-binding resolution by experts.

COLLABORATIVE LAW (also called Collaborative Practice, Collaborative Divorce, and Collaborative Family Law) was originally a family law procedure in which the two parties agreed that they would not go to court, or threaten to do so.

MEDIATION, a form of alternative dispute resolution (ADR) or "appropriate dispute resolution", aims to assist two (or more) disputants in reaching an agreement. The parties themselves determine the conditions of any settlements reached— rather than accepting something imposed by a third party. The disputes may involve (as parties) states, organizations, communities, individuals or other representatives with a vested interest in the outcome.

CONCILIATION is an alternative dispute resolution (ADR) process whereby the parties to a dispute (including future interest disputes) agree to utilize the services of a conciliator, who then meets with the parties separately in an attempt to resolve their differences. He does this by lowering tensions, improving communications, interpreting issues, providing technical assistance, exploring potential solutions and bringing about a negotiated settlement.

NEGOTIATION

Negotiation is a dialogue intended to resolve disputes, to produce an agreement upon courses of action, to bargain for individual or collective advantage, or to craft outcomes to satisfy various interests. It is the primary method of alternative dispute resolution.

Negotiation occurs in business, non-profit organizations, government branches, legal proceedings, among nations and in personal situations such as marriage, divorce, parenting, and everyday life.

ETYMOLOGY

The word "negotiation" is from the Latin expression, "negotiatus", past participle of negotiare which means "to carry on business".

Another view of negotiation comprises 4 elements:

Strategy, process and tools, and tactics. Strategy comprises the top level goals - typically including relationship and the final outcome. Processes and tools include the steps that will be followed and the roles taken in both preparing for and negotiating with the other parties. Tactics include more detailed statements and actions and responses to others' statements and actions.

APPROACHES TO NEGOTIATION

The advocate's approach

In the advocacy approach, a skilled negotiator usually serves as advocate for one party to the negotiation and attempts to obtain the most favorable outcomes possible for that party. In this process the negotiator attempts to determine the minimum outcome(s) the other party is (or parties are) willing to accept, then adjusts their demands accordingly. A "successful" negotiation in the advocacy approach is when the negotiator is able to obtain all or most of the outcomes their party desires, but without driving the

other party to permanently break off negotiations, unless the best alternative to a negotiated agreement (BATNA) is acceptable.

Indeed, the ten new rules for global negotiations advocated by Hernandez and Graham.

1. Accept only creative outcomes
2. Understand cultures, especially your own.
3. Don't just adjust to cultural differences, exploit them.
4. Gather intelligence and reconnoiter the terrain.
5. Design the information flow and process of meetings.
6. Invest in personal relationships.
7. Persuade with questions. Seek information and understanding.
8. Make no concessions until the end.
9. Use techniques of creativity
10. Continue creativity after negotiations

OTHER NEGOTIATION STYLES

Shell identified five styles/responses to negotiation. Individuals can often have strong dispositions towards numerous styles; the style used during a negotiation depends on the context and the interests of the other party, among other factors. In addition, styles can change over time.

1. **Accommodating**: Individuals who enjoy solving the other party's problems and preserving personal relationships. Accommodators are sensitive to the emotional states, body language, and verbal signals of the other parties. They can, however, feel taken advantage of in situations when the other party places little emphasis on the relationship.
2. **Avoiding**: Individuals who do not like to negotiate and don't do it unless warranted. When negotiating, avoiders tend to defer and dodge the confrontational aspects of negotiating; however, they may be perceived as tactful and diplomatic.

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5. **Compromising**: Individuals who are eager to close the deal by doing what is fair and equal for all parties involved in the negotiation. Compromisers can be useful when there is limited time to complete the deal; however, compromisers often unnecessarily rush the negotiation process and make concessions too quickly.

EMOTION IN NEGOTIATION

Emotions play an important part in the negotiation process, although it is only in recent years that their effect is being studied. Emotions have the potential to play either a positive or negative role in negotiation. During negotiations, the decision as to whether or not to settle rests in part on emotional factors. Negative emotions can cause intense and even irrational behavior, and can cause conflicts to escalate and negotiations to break down, while positive emotions facilitate reaching an agreement and help to maximize joint gains.

Positive effect in negotiation

Even before the negotiation process starts, people in a positive mood have more confidence, and higher tendencies to plan to use a cooperative strategy. During the negotiation, negotiators who are in a positive mood tend to enjoy the interaction more, show less contentious behavior, use less aggressive tactics and more cooperative strategies. This in turn increases the likelihood that parties will reach their instrumental goals, and enhance the ability to find integrative gains. Indeed, compared with negotiators with negative or natural affectivity, negotiators with positive affectivity reached more agreements and tended to honor those agreements more. Those favorable outcomes are due to better Decision Making processes, such as flexible thinking, creative Problem Solving, respect for others' perspectives, willingness to take risks and

higher confidence. Post negotiation positive affect has beneficial consequences as well. It increases satisfaction with achieved outcome and influences one's desire for future interactions. The PA aroused by reaching an agreement facilitates the dyadic relationship, which result in affective commitment that sets the stage for subsequent interactions. PA also has its drawbacks: it distorts perception of self performance, such that performance is judged to be relatively better than it actually is. Thus, studies involving self reports on achieved outcomes might be biased.

Negative effect in negotiation

Negative effect has detrimental effects on various stages in the negotiation process. Although various negative emotions affect negotiation outcomes, by far the most researched is anger. Angry negotiators plan to use more competitive strategies and to cooperate less, even before the negotiation starts. These competitive strategies are related to reduce joint outcomes. During negotiations, anger disrupts the process by reducing the level of trust, clouding parties' judgment, narrowing parties' focus of attention and changing their central goal from reaching agreement to retaliating against the other side. Angry negotiators pay less attention to opponent's interests and are less accurate in judging their interests, thus achieve lower joint gains. Moreover, because anger makes negotiators more self-centered in their preferences, it increases the likelihood that they will reject profitable offers. Anger doesn't help in achieving negotiation goals either: it reduces joint gains and does not help to boost personal gains, as angry negotiators don't succeed in claiming more for themselves. Moreover, negative emotions leads to acceptance of settlements that are not in the positive utility function but rather have a negative utility. However, expression of negative emotions during negotiation can sometimes be beneficial: legitimately expressed anger can be an effective way to show one's commitment, sincerity, and needs. Moreover, although NA reduces gains in integrative tasks, it is a better strategy than PA in distributive tasks (such as zero-sum). In his work on negative affect arousal and white noise, Seidner found support for the existence of a negative affect arousal mechanism through observations regarding the devaluation of speakers from other ethnic origins." Negotiation may be negatively affected, in turn, by submerged hostility toward an ethnic or gender group.

Conditions for emotion effect in negotiation

Research indicates that negotiator's emotions do not necessarily affect the negotiation process. Albarracın et al. (2003) suggested that there are two conditions for emotional effect, both related to the ability (presence of environmental or cognitive disturbances) and the motivation:

1. Identification of the affect: requires high motivation, high ability or both.
2. Determination that the affect is relevant and important for the judgment: requires that either the motivation, the ability or both are low.

According to this model, emotions are expected to affect negotiations only when one is high and the other is low. When both ability and motivation are low the affect will not be identified, and when both are high the affect will be identify but discounted as irrelevant for judgment. A possible implication of this model is, for example, that the positive effects PA has on negotiations (as described above) will be seen only when either motivation or ability are low.

Cultural differences cause four kinds of problems in international business negotiations, at the levels of:

1. Language
2. Nonverbal behaviors
3. Values
4. Thinking and decision-making processes

The order is important; the problems lower on the list are more serious because they are more subtle. For example, two negotiators would notice immediately if one were speaking Japanese and the other German. The solution to the problem may be as simple as hiring an interpreter or talking in a common third language, or it may be as difficult as learning a language. Regardless of the solution, the problem is obvious.

NONVERBAL BEHAVIORS

Anthropologist Ray L. Birdwhistell demonstrated that less than 35% of the message in conversations is conveyed by the spoken word while the other 65% is communicated nonverbally. Albert Mehrabian, a UCLA psychologist, also parsed where meaning comes from in face-to-face interactions. He reports:

1. 7% of the meaning is derived from the words spoken
2. 38% from paralinguistic channels, that is, tone of voice, loudness, and other aspects of how things are said
3. 55% from facial expressions

Of course, some might quibble with the exact percentages (and many have), but our work also supports the notion that nonverbal behaviors are crucial – how things are said is often more important than what is said.

Exhibit 2 provides analyses of some linguistic aspects and nonverbal behaviors for the 15 videotaped groups, that is, how things are said. Although these efforts merely scratch the surface of these kinds of behavioral analyses, they still provide indications of substantial cultural differences.

Differences in managerial values as pertinent to negotiations

Four managerial values—objectivity, competitiveness, equality, and punctuality—that are held strongly and deeply by most Americans seem to frequently cause misunderstandings and bad feelings in international business negotiations.

Objectivity

"Americans make decisions based upon the bottom line and on cold, hard facts." "Americans don't play favorites." "Economics and performance count, not people." "Business is business." Such statements well reflect American notions of the importance of objectivity.

The single most successful book on the topic of negotiation, Getting to Yes,[33] is highly recommended for both American and foreign readers. The latter will learn not only about negotiations but, perhaps more important, about how Americans think about negotiations. The authors are quite emphatic about "separating the people from the

problem," and they state, "Every negotiator has two kinds of interests: in the substance and in the relationship." This advice is probably quite worthwhile in the United States or perhaps in Germany, but in most places in the world such advice is nonsense. In most places in the world, particularly in collectivistic, high-context cultures, personalities and substance are not separate issues and cannot be made so.

Competitiveness and Equality

Simulated negotiations can be viewed as a kind of experimental economics wherein the values of each participating cultural group are roughly reflected in the economic outcomes. The simple simulation used in this part of our work represents the essence of commercial negotiations—it has both competitive and cooperative aspects. At least 40 businesspeople from each culture played the same buyer-seller game, negotiating over the prices of three products. Depending on the agreement reached, the "negotiation pie" could be made larger through cooperation (as high as $10,400 in joint profits) before it was divided between the buyer and seller.

Time

"Just make them wait." Everyone else in the world knows that no negotiation tactic is more useful with Americans, because no one places more value on time, no one has less patience when things slow down, and no one looks at their wristwatches more than Americans do. Edward T. Hall in his seminal writing is best at explaining how the passage of time is viewed differently across cultures and how these differences most often hurt Americans.

Differences in thinking and decision-making processes

When faced with a complex negotiation task, most Westerners (notice the generalization here) divide the large task up into a series of smaller tasks. Issues such as prices, delivery, warranty, and service contracts may be settled one issue at a time, with the final agreement being the sum of the sequence of smaller agreements. In Asia, however, a different approach is more often taken wherein all the issues are discussed at once, in no apparent order, and concessions are made on all issues at the end of the discussion. The Western sequential approach and the Eastern holistic approach do not mix well.

NEGOTIATION THEORY

Common Assumptions of Most Theories

Negotiation is a specialized and formal version of conflict resolution most frequently employed when important issues must be agreed upon. Negotiation is necessary when one party requires the other party's agreement to achieve its aim. The aim of negotiating is to build a shared environment leading to longterm trust and often involves a third, neutral party to extract the issues from the emotions and keep the individuals concerned focused. It is a powerful method for resolving conflict and requires skill and experience. Zartman defines negotiation as "a process of combining conflicting positions into a common position under a decision rule of unanimity, a phenomenon in which the outcome is determined by the process."

However, most theories of negotiations share the notion of negotiations as a process. Yet, they differ in their description of the process. Structural Analysis considers this process to be a power game. Strategic analysis thinks of it as a repetition of games (Game Theory). Integrative Analysis prefers the more intuitive notion of process, in which negotiations undergo successive stages, e.g. pre-negotiation, stalemate, settlement. Especially structural, strategic and procedural analysis build on rational actors, who are able to prioritize clear goals, are able to make trade-offs between conflicting values, are consistent in their behavioral pattern, and are able to take uncertainty into account.

Negotiations differ from mere coercion, in that negotiating parties have the theoretic possibility to withdraw from negotiations. It is easier to study bi-lateral negotiations, as opposed to multilateral negotiations.

Structural Analysis

Structural Analysis is based on a distribution of empowering elements among two negotiating parties. Structural theory moves away from traditional Realist notions of power in that it does not only consider power to be a possession, manifested for example in economic or military resources, but also thinks of power as a relation.

Based on the distribution of elements, in structural analysis we find either power-symmetry between equally strong parties or power-asymmetry between a stronger and a weaker party. All elements from which the respective parties can draw power constitute

structure. They may be of material nature, i.e. hard power, (such as weapons) or of social nature, i.e. soft power, (such as norms, contracts or precedents). These instrumental elements of power, are either defined as parties' relative position (resources position) or as their relative ability to make their options prevail. Structural analysis is easy to criticize, because it predicts that the strongest will always win. This, however, does not always hold true.

Strategic Analysis

According to structural analysis, negotiations can therefore be described with matrices, such as the Prisoner's Dilemma, a concept taken from Game Theory. Another common game is the Chicken Dilemma.

Strategic analysis starts with the assumption that both parties have a veto. Thus, in essence, negotiating parties can cooperate (C) or defect (D). Structural analysis then evaluates possible outcomes of negotiations (C, C; C, D; D, D; D, C), by assigning values to each of the possible outcomes. Often, co-operation of both sides yields the best outcome. The basic problem however is, that the parties can never be sure that the other is going to cooperate, mainly because of two reasons: first, decisions are made at the same time or, second, concessions of one side might not be returned. Therefore the parties have contradicting incentives to cooperate or defect. If one party cooperates or makes a concession and the other does not, the defecting party might relatively gain more. Trust may be built only in repetitive games through the emergence of reliable patterns of behavior such as tit-for-tat.

Process Analysis

Process analysis is the theory closest to haggling. Parties start from two points and converge through a series of concessions. As in strategic analysis, both sides have a veto (e.g. sell, not sell; pay, not pay). Process analysis also features structural assumptions, because one side may be weaker or stronger (e.g. more eager to sell, not willing to pay a certain price). Process Analysis focuses on the study of the dynamics of processes. E.g. both Zeuthen and Cross tried to find a formula in order to predict the behaviour of the other party in finding a rate of concession, in order to predict the likely outcome.

The process of negotiation therefore is considered to unfold between fixed points: starting point of discord, end point of convergence. The so called security point, that is the result of optional withdrawal, is also taken into account.

Integrative Analysis

Integrative analysis divides the process into successive stages, rather than talking about fixed points. It extends analysis to pre-negotiations stages, in which parties make first contacts. The outcome is explained as the performance of the actors at different stages. Stages may include pre-negotiations, finding a formula of distribution, crest behavior, settlement