M. COM - SECOND SEMESTER

INTERNATIONAL BUSINESS

MODULE III
STRATEGY DEVELOPMENT IN IB

A strategy is a method or plan chosen to bring about desired future, such as the achievement of a goal or solution to a problem. A firm's strategy refers to the actions that managers take to attain the goals of a firm.
A business strategy is a set of competitive moves and actions that a business uses to attract customers, strengthen performance and achieve organizational goals.

A global strategy means that internationally scattered subsidiaries act independently and corporate as if they were local companies with minimum coordination from the video video parent company. It leads to a wide variety of business strategies and a high level of adaptation to the local business environment.

NEED TO DEVELOP STRATEGIES

1. To taking advantage of resources and emerging opportunities
2. To Respond effectively to resistance and barriers
3. For efficient use of time, energy and resources.

STEPS IN STRATEGY DEVELOPMENT

1.SWOT analysis
2.Decision to Internationalize
3.Market selection
4.Product selection
5.Selection of entry mode
6.Marketing strategy selection
7.International Organizational Decision

REQUIREMENTS OF GLOBAL EXPANSION
Legal presence
Tax regulations and its impact
HR or labour laws
Social security burden
Compliance requirements

Capital requirements and gearing analysis
Capital repatriation
Funding the Local operations
Accounting and tax applicable reporting framework
Banking relations
Import and export procedures
Immigration or work permits requirements

PROS OF GLOBAL EXPANSION
1. Access to new regional markets for products and services
2.Brand recognition
3. Less cost of production
4. Use of Free trade zones

CONS OF GLOBAL EXPANSION
1. Incorporation of cost and regulations
2.Cultural and language barriers
3. Tightening immigration rules

THE FIRM AS A VALUE CHAIN
A value chain is a set of activities that a firm is operating in a specific industry to deliver a valuable product for the market. Michael Porter introduced the value chain model in 1985. It requires continuous revaluation, imagination and remodeling to meet changing economic conditions.
Value Chain analysis is a way to visually analyze a company's business activities to see how the company can create a competitive advantage for itself.

It is set of activities that an organization carries out to create value for its customers. A firm's value chain must be compared to competitor's value chains to determine where competitive advantages exist.

Refer fig.10.1 Value Chain Analysis

PRIMARY ACTIVITIES OF Value Chain Analysis
1. Inbound logistics
2. Operations
3.Outbound Logistics
4.Marketing and sales
5.Services

SUPPORTING ACTIVITIES

1.Firm infrastructure
2.Human resources
3.Technology developments
4. Procurements

INTERNATIONAL BUSINESS LOCATIONS

Making location decisions for the production of products is a key aspect of strategic and logistical decision making for manufacturing firms. The optimum locations may offer competitive advantages and may contribute to the success of an enterprise.

FACTORS INFLUENCING LOCATIONS

Cost
Labour characteristics
Infrastructure
Market Characteristics
Proximity to customers or Markets
Market size
Purchasing power of market
Proximity to suppliers
Proximity to competition
Tax structure and policies
Risk
Quality of Life
Climate
Political factors
Government attitude toward foreign investment
Social factors

RISK ANALYSIS

The term risk analysis is used here in its broadest sense to include risk assessment, risk management and risk communication.

Risk Analysis = risk assessment + risk management + risk communication

TYPES OF RISKS IN INTERNATIONAL TRADE

1. Commercial risk
2. Political risk
3. Risk arising out of foreign laws
4. Cargo Risk
5. Credit risk
6. Foreign exchange fluctuation risk

COST BENEFIT ANALYSIS (CBA)

A cost benefit analysis is a process used in businesses to analyse decisions. The business or analyst sums the benefit of a situation or action and then subtracts the cost associated with taking that action.CBA should begin with compiling a comprehensive list of all the costs and benefits associated with project or decisions.

It is a process used to measure the benefits of a decision or taking action minus the cost associated with taking that action. It involves measurable financial metrics such as revenue earned or costs saved as a result of the decision to pursue a project.

It also include intangible benefits and costs or effects from a decision such as employee morale and customer satisfaction. The main purpose of the analysis is to obtain relevant information about the level and distribution of benefits and cost of the project.

KEY CBA INDICATORS

1. NPV (NET PRESENT VALUE)
2. PVB (PRESENT VALUE OF BENEFITS)
3. PVC (PRESENT VALUE OF COSTS)
4. BCR (BENEFIT COST RATIO =PVB / PVC)
5. Net Benefit = (PVB - PVC)
6. NPV/k (where k is the level of funds available)

BUSINESS ENTRY STRATEGIES

The business environment in today's world is experiencing significant changes such as increase in competition, technology advancement and increasing globalization. All these have provided many market opportunities to business firms and influence them to go International.

In the past two decades, companies have shifted their orientation from domestic to Global and are using Global marketing techniques to reach International markets.

REASONS FOR ENTERING INTERNATIONAL MARKETS
1. Domestic market constraints
2. Government Policies and regulations
3. Growth of overseas markets
4. Reduce cost
5. Increased Productivity
6. Relative profitability
7.Diversification to reduce business risk
8. Control Inflation and price rise murder
9. Strategic vision

BUSINESS ENTRY STRATEGIES

One of the critical decisions in international marketing is the mode of entering the foreign market.

At one extreme, a company may decide to produce the product domestically and export it to the foreign market. In this case the company need not make any investment overseas.

On the other hand, the company may establish manufacturing facilities in the foreign country to sell the product there. This strategy requires direct foreign investment by the company. Following are the main business entry strategies adopted by the companies in international business.
- exporting
- licensing
- franchising
- wholly owned subsidiary
- joint venture
- foreign direct investment
- greenfield investment
- strategic alliance

I.EXPORTING
Exporting to a foreign market is a quite common entry strategy many firms follow for at least some of their markets. Under this strategy, the company exports the product from its home base, without any marketing or production or organization overseas. Exporting may be appropriate under the following circumstances:
- Cost of production is higher in the foreign market
- No guarantee about the market availability for long period.
- Foreign market is characterized by production bottle necks.
- Political or other risks of investments in the foreign country
- Foreign investment is not encouraged by the concerned foreign government.

- There is excess production capacity in the domestic market or expansion of existing facility is less expensive.
- Very attractive incentives are available in the country for establishing facilities for export production.

OPTIONS OF EXPORTING

1. Indirect exporting

When a firm delegates the task of selling goods abroad to an outside agency, it is called indirect exporting.

2. Direct exporting

When a manufacturing firm itself performs the task of selling goods abroad rather than entrusting it to any outside agency it is called direct exporting

II. LICENSING

Under this strategy, the company (licensor) gives licence to a foreign company (licensee) to manufacture the company's product for sale in that foreign country and sometimes in other specified markets also. Licensing enables a company to gain market presence overseas without equity investment.

NEED FOR LICENCING

A Manufacturer should consider licensing when
- capital is scarce
- import restrictions discourage direct entry
- the country is sensitive to foreign ownership

Advantages of Licensing

1. Appealing to small companies that lack resources
2. Faster access to the market
3. Rapid penetration into Global markets.

Disadvantages of Licensing

1. Other entry mode choices may be affected
2. Licensee may not be committed
3. Lack of enthusiasm from the part of licensee
4. Licensee may become a future competitor

III. FRANCHISING

Franchising is a special form of licensing in which a parent company (the franchiser) grants another independent company (the franchisee) the right to do business in a prescribed manner.

In this arrangement the franchisor makes a total marketing programme (including the brand name, logo and the method of operation) available to the franchisee. Usually, the franchise agreement is more comprehensive than a regular licensing agreement in as much as the total operation of the franchise is prescribed. Eg. Coca Cola, Pepsi, McDonalds.

Franchising has all the advantages and disadvantages of licensing strategy. One added advantage over licensing is the better control over the product and the franchisee.

IV. WHOLLY OWNED SUBSIDIARY

Under this type of entry mode, the company wholly owns a business in foreign markets i.e. from production to ultimate selling, every business function takes place in a Foreign Nation.

Basically, there are two ways to establish a subsidiary in foreign market. First is by acquiring an established local company in foreign Nation and then to manufacture its own products in that company. The other is by setting up a whole new operation in foreign Nation, this is called Greenfield venture.

V. JOINT VENTURE

When Two or more persons come together to form a partnership for the purpose of carrying out a project, this is called a joint venture.

In This scenario, both parties equally invest in the project in terms of money, time and effort to build on the original concept. While joint ventures are generally small projects, major corporations use this method to diversify.
A joint venture can ensure the success of smaller projects for the beginners in the business world or for established corporations.

Advantages of Joint venture
- it provides large capital fund
- it is suitable for Major projects
- it spread the risk between or the among partners
- different parties to the joint venture will bring different kinds of skill
- Makes large projects and turnkey projects, feasible and possible.
- It provides synergy due to combined efforts of varied parties.

Disadvantages
- it can result in disputes between or among parties due to varied interest
- decision making is normally slowed down in joint ventures due to the involvement of a number of parties
- possibility of collapse of a joint venture is more due to entry of competitors, changes in the business environment in the two countries, changes in the partners strength etc.

VI. FOREIGN DIRECT INVESTMENT

FDI involves a company entering an overseas market by making a substantial investment in the country. Some of the modes of entry into international business using the foreign direct investment strategy include mergers and acquisitions, joint ventures and Greenfield investment.

VII. GREENFIELD INVESTIMENTS

Greenfield is the establishment of new business in a foreign country. It is a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Pros of Green field venture
- can build subsidiary it wants
- to establish operating routines
- it will have its own new strategic plans and technical assets.
- Strategy may be made for business, from its parent country, after some commitments with the host country.

Cons of green field venture
- slow to establish
- risky, because they have no proven track record
- competition will be difficult to overcome
- political instability can make adverse effect on Greenfield investment.

VIII. STRATEGIC ALLIANCE

Alliances are different from traditional joint ventures in which two partners contribute a fixed amount of resources and venture on its own.

In an alliance their resources are directed in a collaboration that goes beyond the limits of a joint venture.

In an Alliance partners bring a particular skill or resource usually one that is complementary to the other. By joining forces both are expected to profit from each other's experience. Eg. Apple with MasterCard.

Features of Strategic Alliances

- they are usually between firms in high industrialized Nations
- the focus is often on creating new products and technologies rather than distributing existing ones.
- they are often created for short-term durations

Reasons for Strategic Global Business Alliances
1. Economies of scale
2.Enhancing competitiveness
3.Dividing Global business risk
4. Setting new standards
5. Endearing new foreign markets
6. Overcoming competition

Factors influencing decisions of Entry modes

- Company size and resources
- Risk attitudes of the Management
- Home country factors
- Characteristics of the foreign Nations business environment
- Market growth rate
- Entry barriers

Entry Strategy Analysis
1. Expected sales
2.Cost
3.Investment in assets
4.Profitability
5. Risk factors

MODULE - IV
INTERNATIONAL ECONOMIC INSTITUTIONS AND INTEGRATION

Introduction

Free trade is defined as the absence of tariffs, quotas and other governmental obstacles to international trade. Free trade allows each country to specialize in the goods it can produce cheaply and efficiently relative to other countries. In spite of the benefits provided by the free trade, removing trade barriers damages the interest of the shareholders and employees of domestic industry.

In The absence of trade barriers they have to face stiff competition from the foreign players. Consequently, barriers to trade continue to exist. Even though all economists think that free trade is desirable, they differ on how best to make the transition from tariff and quotas to free trade.

TYPES OF TRADE AGREEMENTS

The four Basic approaches to trade reforms are unilateral, plurilateral, multilateral and bilateral.

Unilateral Tariff Reduction

It implies, reductions made in tariffs independently and without reciprocal action by other countries with which the country enters into international trade. The advantage is that the country can reap the benefits of free trade immediately. They need not wait for the reciprocal action from the participating countries of international trade.

Bilateral Agreements

Bilateral trade agreement is an "exchange agreement between two Nations or trading groups that gives each party favoured trade status pertaining to certain goods obtained from the signatories. The agreement sets purchase guarantee, remove tariffs and other trade barriers".

It is an agreement entered into between two or more countries under which the participants agrees to reduce tariffs, quotas and other restrictions on trade between them. It also contains provisions to protect intellectual property rights.

Advantages of Bilateral Trade Agreements:

- easy to negotiate
- faster effect and reap trade benefits more quickly

Plurilateral Agreement

It is a multi National legal or trade agreement between countries. In economic jargon, it is an agreement between more than two countries, but not a great many, which would be multilateral.

Multilateral agreements

An agreement entered into between three or more countries who wish to regulate trade between the Nations without discrimination. They are usually intended to lower trade barriers between participating countries. Consequently, this agreement increases the degree of economic integration between the participants. This is considered as the most effective way of liberalizing trade in an interdependent global economy.

Some of the multilateral trade agreements are discussed below.

NAFTA (North American Free Trade Agreement)

This is the largest multilateral trade agreement. This is a free trade agreement (FTA) between United States, Canada and Mexico.

GATT (General Agreement on Tariffs and Trade)

GATT is a set of multilateral trade agreement aimed at the abolition of quotas and reduction of tariff duties among the contracting countries. It was a result of a meeting convened by 23 countries at Geneva, in 1947. It was to take effect on January 1, 1948.

It was considered an interim agreement pending the formation of United Nations agency to supersede it. GATT proved to be the most effective instrument of World Trade liberalization.

Objectives

1.Raising the Standard of living

2.Ensuring full employment and a large and steadily growing volume of real income and effective demand

3.Developing the full use of the resources of the world

4.Expansion of production and international trade

5.Reduction of barriers to international trade.

Principles

- trade without discrimination
- each member nation opened its market equally to every other member.
- Envisages protection through tariff
- uniform customs regulations
- obligation of each contracting nation to negotiate for tariff cuts upon the request of another.

Trade Conferences
1.Geneva round - 1947
2.Annecy round - 1949
3.Torquay round - 1951
4. Geneva round - 1955 - 59
5.Dillion round 1960 - 62
6.Kennedy Round 1962 - 67
7.Tokyo round 1973 - 79
8. Uruguay round 1986 - 94

WTO (WORLD TRADE ORGANIZATION)

The WTO is the international organization that overseas trade among member Nations. It acts as a forum for government to negotiate trade agreements and settle trade disputes under a system of rules and procedures. It aims to increase World Trade by lowering barriers to International sale of goods and services including intellectual property.
WTO was established on 1st January 1995 as the successor to GATT. It is one of the youngest of international organizations. As on 2020 WTO has 164 members. It was the Uruguay round of GATT which discussed and decided to establish a stable institution for looking after the advancement of free and fair trade among countries. As a result of this agreement, with effect from 1st January, 1995 the GATT was changed to WTO. Geneva is the headquarters of WTO.

Functions of WTO
1. Administers the WTO agreements and facilitates their operation and implementation
2. Provides a forum for trade negotiations among member countries
3.Responsible for the settlement of differences and disputes between members
4.Provides technical assistance and training for developing countries
5. Cooperate with other international organizations on subjects of mutual interest

Principles of WTO
- non-discrimination
- reciprocity
- binding and enforceable commitment
- transparency
- single undertaking

WTO AGREEMENTS

I.TRIPS (Agreements on Trade Related Aspects of Intellectual Property Right)
Intellectual property refers to the creations of mind such as inventions, literacy and artistic works, designs, symbols, names and images used in commerce.

Intellectual property rights are the legally recognized rights to such creation of mind. Under intellectual property law, owners are given exclusive rights to a variety of intangible assets.

Intellectual properties include copyright, trademarks, geographical indications, industrial designs, patent, IC layout design and undisclosed information. The agreement requires the member countries to maintain high levels of intellectual property protection and to administer a system of enforcement of such rights. Trips require member states to provide strong protection for intellectual property rights.

II.TRIMs (The Agreement on Trade Related Investment Measures)

Trims are rules that apply to the domestic regulations a country imposes on foreign investors, as part of an industrial policy. This agreement of WTO is agreed upon by all members of the WTO. This agreement was concluded in 1994 and came into force in 1995. WTO was not established at that time. It was its predecessor, GATT, which made these agreements.

Trims are concerned with liberalization of foreign investment conditions. According to Trims agreement, WTO member states commit themselves to treat foreign enterprises under the same conditions as their domestic enterprises. Member countries also commit themselves to the reduction of all quantitative restriction on imported goods including tariff and non tariff barriers.

Measures prohibited by TRIMs Agreement
- local content requirements
- trade balancing requirements
- foreign exchange restrictions

III.GATS (The General Agreement on Trade in Services)

It is the Treaty of World Trade Organization that entered into force in January 1995 as a result of Uruguay round of negotiations. The Treaty was created to extend multilateral trading system to service sectors. The Treaty envisages extending the same multilateral trading system of GATT to service sectors as it did with merchandise trade.

Basic Principles of GATS

1. All services are covered
2. Most favoured Nation treatment applies to all services
3. National treatment applies in the areas where commitments are made
4. Transparency in regulations, enquiry points etc
5. Regulations have to be objective and reasonable
6. International payments normally unrestricted

IV.AoA (Agreement on Agriculture)

The agreement on agriculture forms a part of the final act of the Uruguay round of multilateral trade negotiations. It was signed by the member countries in April 1994 at Morocco.

It came into force on 1st January 1995. The Uruguay round marked a significant turning point in the world trade in agriculture. For the first time agriculture features came in a major way in the GATT round of multilateral trade negotiations.

Salient features of AoA

- market access
- domestic support
- export subsidies

Regional Economic Integration

This is the most basic form of economic operation. Member countries remove all barriers to trade among themselves but are free to independently determine trade policy with non member countries. It has enabled countries to focus on issues that are relevant to their stage of development as well as encourage trade between neighbouring countries. There are four types of regional economic integration

- free trade area
- customs union
- common market
- Economic Union

Pros of REI

- trade creation
- employment opportunities
- consensus and Cooperation

Cons of REI
- trade diversion
- employment shift
- loss of national sovereignty

Forms of REI

I. European Union (EU)
The European Union is a political economic Union of 28 member states that are located primarily in Europe. It covers an area of 43, 24, 782 Km2 with an estimated population of over 508 million.

The European Union was created by the Maastricht Treaty, which came into force on November 1, 1993. The Treaty Was designed to enhance European political and economic integration by creating a single currency (Euro), a unified foreign and security policy, a common citizenship rights and advancing Cooperation in the area of immigration, Asylum and judicial affairs.

The European union was awarded the Nobel Prize for peace in 2012 in recognition of the organizations efforts to promote peace and democracy in Europe.

Objectives of EU
- the establishment of a common market
- promotion of peace and well being of the union citizens
- focus for an area of freedom, security and justice without internal frontiers
- sustainable development based on balanced economic growth and Social Justice
- a social market economy - highly competitive and aiming at full employment and social progress.

Structure of EU

1. European Commission
2.Council of Ministers
3.European Parliament
4. Court of Justice
5. Court of Auditors

II.NAFTA (North American Free Trade Zone)
It is a comprehensive trade agreement that sets the rules of trade and investment between Canada, the United States and Mexico. Since the agreement entered into force on January 1, 1994, in has systematically eliminated most of the tariff and non tariff barriers to free trade and investment between the three countries.

Objectives and functions of NAFTA

- to eliminate trade barriers and facilitate cross-border movement of goods and services between the parties
- to promote conditions of fair competition between member countries
- to provide adequate and effective protection and enforcement of intellectual property right in each territory
- to create effective procedures for the implementation and application of this agreement for its joint Administration and for resolution of disputes
- establish a Framework for further trilateral, regional and multilateral cooperation to expand and enhance benefits of this agreement

Functioning of NAFTA

- Free trade Commission
- NAFTA coordinators
- NAFTA working group and committees
- NAFTA Secretariat
- commission on labour cooperation
- Commission for environmental cooperation

III.ASEAN (Association of Southeast Asian Nations)

It is a political and economic organization of 10 Southeast Asian countries. It was formed on 8 August, 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand. The membership was expanded to include Brunei, Cambodia, Laos, Myanmar and Vietnam.

Its objectives include accelerating economic growth, social progress and socio cultural evolution among its members, alongside protection of regional stability and opportunities for member countries to resolve differences peacefully.

Objectives of ASEAN
- to accelerate economic growth, social progress and cultural development in the region
- to promote regional peace and stability
- to promote collaboration and mutual assistance on matters of common interest
- to provide assistance to each other in the form of training and research facilities
- to collaborate for the better initialization of agriculture and industry to raise the living standard of the people
- to promote South Asian Studies
- to maintain close beneficial cooperation with existing international organization with similar aims and purpose

IV. SAFTA (South Asian Free Trade Zone)

It is An agreement made on 6th January 2004, in the twelfth SAARC summit in Islamabad. It created a free trade area of 1.6 billion people in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The 7 foreign ministers of the region signed a Framework agreement on SAFTA to reduce custom duties of all traded goods to zero by 2016.

It came into force on 1st January 2006 and is operational following the ratification of the agreement by 7 governments.

Basic principles

- Overall reciprocity and mutuality of advantages
- Negotiation of tariff reforms step-by-step, improved and extended in successive steps through periodic reviews
- recognition of the special needs of the least developed contracting states and agreement on concrete preferential measures in their favour
- inclusion of all products, manufactures and commodities in their raw, semi - processed and processed forms

Objectives of the agreement

1. Eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the contracting states
2. Promoting conditions of fair competition in the free trade area and ensuring equitable benefit to or contracting states
3. Creating effective mechanism for the implementation and application of the agreement for its joint administration and the resolution of disputes
4. Establishing a Framework for further Regional Cooperation to expand and enhance the mutual benefits of this agreement

Instruments of the agreement

- trade lateralization program
- rules of origin
- institutional arrangements
- dispute settlement procedures
- safeguard measures
- any other instruments that may be agreed upon.

V. APEC (Asia Pacific Economic Cooperation)

It is a forum of 21 Pacific Rim members economy that promote free trade throughout the Asia - Pacific region. It typically includes much of East Asia, South Asia, South East Asia and Oceania. It was established in 1989 in response to the growing interdependence of Asia Pacific economics and the advent of regional trade blocs in other parts of the world.

Objectives
- to sustain the growth and development of the region for the common good of its people
- to enhance the positive gains both for the region and the world economy
- to develop and strengthen the open multilateral trading system in the interest of Asia Pacific and all other economy
- To reduce barriers to trade in goods and services among participants

Three pillars of APEC
1. Trade and investment liberalization
2.Business facilitation
3. Economic And Technical Cooperation (ECOTECH)

VI. SAARC (The south Asian Association For Regional Cooperation)

It is an economic and geopolitical organization of 8 South Asian nations. It plays the role of a guiding force for the member countries. It is a regional inter-governmental organization of states in South Asia. Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka are the members of the SAARC.

Objectives
1.To improve the quality of life of the people of South Asia
2.To accelerate economic growth and social progress of the South Asian region
3.To provide all individuals with the opportunity to live in dignity
4. To strengthen collective self reliance among the countries of South Asia
5. To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific field
6. To strengthen cooperation with other developing countries
7. To cooperate with similar organizations with similar goals

Organization

SAARC Operates through 6 Apex bodies which ensure regional cooperation at multiple levels

1. SAARC Chamber of Commerce and industry (SCCI)
2. SAARC law
3. South Asian Federation of accountants (SAFA)
4. South Asia Foundation (SAF)
5. South Asian initiative to end violence against Children (SAIEVAC)
6. Foundation of SAARC writers and literature (FOSWAL)

INTERNATIONAL FINANCIAL INSTITUTIONS

International Financial Institutions are Financial Institutions that have been established by more than one country and hence are subject to international law. Their owners or shareholders are generally National governments although other International Institutions and organizations occasionally figure as shareholders.

I. IMF (International Monetary Fund)

The IMF was created in 1946, as a result of 1944 International Financial conference at Breton Woods New Hampshire. It was formed in order to prevent a return of International Financial chaos that preceded the World War II.

The IMF which started with an initial membership of 29 countries has now 188 member countries. The IMF is controlled by its 188 member countries each of whom appoints a representative to the IMFs Board of Governors. The board of governors meets once a year to discuss and possibly achieve consensus on major issues. Day-to-day operations are managed by 24 person executive board.

Objectives and Principles

1.To promote International Monetary cooperation through a permanent institution

2.To facilitate the expansion and balanced growth of international trade

3.To promote exchange stability and orderly exchange arrangements among members

4.To assist the establishment of a multilateral system of payment

5.To give confidence to members by making the general resources of the IMF temporarily available to them

6. To shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members

Functions of IMF
1. Exchange stability
2. Elimination of the balance of disequilibrium payment
3.Determination of par value
4. Stabilize economies
5. Credit facilities
6.Maintaining balance between demand and supply of currencies
7.Maintaining liquidity
8.Technical assistance
9. Reducing tariffs
10. Overall supervision

II. World Bank

The World bank is an international financial institution that provides loans to developing countries for capital programs.

It comprises of institutions like International bank for reconstruction and development (IBRD) and the international Development Association (IDA). The World Bank is a component of the World Bank group which is part of the United Nations system. The World Bank's official goal is the reduction of poverty.

The goals of World Bank
1. To eradicate extreme poverty and hunger by 2050
2. To achieve Universal primary education by 2015
3.To promote gender equality and empower women by 2015
4.To reduce child mortality
5.To improve maternal health
6.To combat HIV, AIDS, Malaria and other diseases by 2015
7. Ensure environmental sustainability by 2015
8. Develop Global partnership for development

Objectives of the bank
- to provide long run capital to member countries for economic reconstruction and development
- to induce long run capital investment for maintaining balance of payment equilibrium and balanced development of international trade
- provide guarantee for loans and other projects of member countries
- to ensure the implementation of development projects
- to promote capital investment in member countries

Functions of the Bank

1. Assist in construction and development
2. Promote Private investment
3. To arrange loans
4. To provide finance to projects

INTERNATIONAL LIQUIDITY AND SPECIAL DRAWING RIGHTS - SDR

It refers to an international type of monetary reserve currency created by IMF in 1969. Monetary reserves are used to backup the national currency and provide a cushion for executing Central banking functions like adding to monetary supply and settling foreign exchange contracts in local currencies. It operates as a supplement to the existing to reserve of member countries. SDR is designed to augment International liquidity by supplementing standard reserve currencies.

STR is basically an International Monetary reserve asset. Today the value of a SDR consists of the value of the four of IMFs biggest member currencies - the US dollar, the British Pound, the Japanese yen, and the euro - but currencies do not hold equal weight. SDR is quoted in terms of dollars. The SDR is not a currency but some refer to it as a form of IMF currency. SDR can be exchanged between countries along with the currencies.

MODULE V

INTERNATIONAL BUSINESS - FUNCTIONAL STRATEGIES

Functional strategy

Functional strategy is the strategy or organizational plan adopted by each functional area, namely: marketing, production, finance, human resources and so on, in line with the overall corporate or business strategy, to attain organizational level of objectives.

Functional strategy can be explained as the day today strategy which is formulated to assist in the execution of Corporate and business level strategies. It is concerned with operational level decision making, called tactical decisions, for various functional areas.

Functional areas of a business

- marketing strategy
- financial strategy
- human resource strategy
- production strategy
- research and development strategy

I. INTERNATIONAL MARKETING STRATEGY

International marketing is the process of satisfying consumers needs and wants internationally by supplying the goods and services desired by them at the right place and at the right time. The process of international marketing starts with assessment of international market customers needs and wants and finally it ends up with the supply of goods and services that involve the right marketing mix.

Dimensions of international marketing strategy
- identifying the targeted product or service market
- assessing the level of investment required
- understanding the product line, positioning, pricing and distribution
- evaluating the assets or capabilities required

Process of international strategy building
- establish a competitive mission
- detailed assessment of each strategy
- identification of appropriate marketing strategy
- detailed marketing plan
- analyzing international market strategies

Challenges of international marketing strategy
1. Tariff barriers
2.Administrative policies both in guest and host countries
3.Considerable diversities in culture and social sphere
4.Political instability or environment
5. Place constraints
6. Variations in exchange rates
7. Norms and ethics challenges
8. Terrorism and racism
9. Other difficulties: ecological environment, global warming, natural calamities, role of International agencies etc.

II. INTERNATIONAL FINANCIAL STRATEGY

International Financing is also known as International macro economics as it deals with financing on a global level. There are various sources for organizations to raise funds. To raise funds internationally is one of them.

International finance helps organizations engaged in cross border transactions with foreign business partners, such as customers, investors, suppliers and lenders.

Structure of International Financing Strategy
1. Where are we now
2. Where would we like to be
3.How do we get there
4. Key policies
   - reserve policy
   - Core cost policy
   - pricing and cost recovery policy
   - ethical policy

III. INTERNATIONAL PRODUCTION STRATEGY

A Production strategy means different things at different companies. Some companies don't have production strategies at all. The production strategy describes who your customers are, how your product fits into the current market and how it will achieve business goals.

Key components of international production strategy are:
1.Customers
2.Competitors
3.Business
4.Macro environment

Strategies in new production development
1.New to the world
2. New product lines
3. Product Line extension
4.Improvements or revision of existing products
5.Repositioning of existing products at new markets

Stages of international production development
1.Idea creation
2.screening and Evaluation
3. Development
4. Test marketing
5. Commercialization

IV. INTERNATIONAL HUMAN RESOURCE STRATEGY

The scarcity of qualified staff has become a major constraint in the speed with which global companies can expand their International sales. Growth of the knowledge based society, along with the pressure of opening up emerging markets has led cutting edge Global companies to recognize now, more than ever that human resources and intellectual capital are as significant as financial assets in building sustainable competitive advantage.

Getting the right people in the right places at the right time and at the right cost is the core of Human Resource strategy.

Steps in international human resource strategy are:
1. Break all the ' local National glass ceilings'
2. Trace your lifeline
3. Build a Global database
4. Construct a mobility pyramid
5. Identify your leadership capital
6. Assess your bench strength and skill gap
7. Recruit Regularly
8. Advertise your post internally
9. Institute succession planning
10. Challenge and retain your talent
11. Be open
12. Pay people well
13. Timely promotion
14. Set up a Task force
15. Returning experts
16.Matching the skills
17. Send the final candidate to visit the country where the post is based
18. Give the appointee and family, cultural and language immersion training
19. Assign a mentor from headquarters
20. Set clear objectives for the appointees’ integration into local business environment
21. Discuss next steps before departure and again during the assignment

STAGES OF INTERNATIONALISATION
Internationalization refers to any business activity which involves the transfer of resources, goods, services, knowledge, skills or information across National boundaries. The scenario of international business is categorized into five stages as discussed below.

- domestic company
- international Company
- multinational Company
- global company
- transnational company

Advantages of internationalization
- faster growth and wider market
- optimum utilization of resources
- effect on performance of enterprise
- job creation
- attracting investment
- New technology and materials

Disadvantages
- cultural identity issues
- political issues
- tariffs, quotas, trade barriers
- entry requirements
- exchange instability

International orientations
1. Ethnocentrism (home country orientation)
2. Polycentrism (host country orientation)
3. Regiocentric (regional orientation)
4. Geocentrism (world orientation)

MULTINATIONAL COMPANIES (MNCs)

“Multinational corporation owns and manages business in two or more countries”. A multinational company is one which is incorporated in one country (Home country) but whose operations extend beyond the home country and which carries on business in other countries (host country) in addition to the home country. It must be emphasized that the headquarters of a multinational company are located in the home country.

Features of MNCs
- location
- huge assets and turnover
- unity of control
- advanced technology
- aggressive marketing

Organizational structure of MNCs

MNC cannot implement their strategies without an effective structure. There are a number of choices available to an MNC when deciding on an organizational arrangement. The most common organizational structures are:

- global product structure
- global Area structure
- global functional structure
- Mixed structure
- matrix structure
- transnational network structure

1. Global product structure

It is a structural arrangement in which domestic divisions are given worldwide responsibility for product groups. If the firm produces a large number of diverse products, the structure allows each major product line to focus on the specific needs of its customers.
(Refer figure 14.4)

2. Global Area structure

It is one in which primary operational responsibility is delegated to area managers, each of whom is responsible for a specific geographic region. This is a polycentric structure. With a Global Area structure the individual product lines are subsumed within each of the Geographic areas.
(Refer figure 14.5)

3. Global Functional structure
It is one that is built around the basic task of the organization. Under this arrangement the head of the production department is responsible for all domestic and international manufacturing. Similarly the head of marketing is responsible for the sales of all products here and abroad.
(Refer figure 14.6)

4. Mixed structure
It is a hybrid organization design that combines structural arrangements in a way that best meets the needs of the Enterprise. Different businesses with different patterns of global demand, supply and competition, need different management structures. Primary advantage of this arrangement is that it allows the enterprise to create the specific types of design that best meets its needs.

5. Matrix structure
In all the above structures employees needs to report to only one manager. But in matrix structure both functional and project managers exercise authority over organizational activities. Thus Personnel in this structure have two supervisors, namely: a project manager and the manager of the functional department at headquarters level.
(Refer figure 14.7)

6. Transnational network structure
This is one of the newest form of International Organization arrangements which is designed to help MNC take advantage of global economies of scale while also being responsive to local customer demands. This structural design combines elements of functional, product and Geographic designs, while relying on a network arrangement to link the various worldwide subsidiaries.

Factors contributed for the growth of MNCs
1. Market expansion
2.Marketing superiority
3.Financial superiority
4.Technological superiority
5.Strategic FDI
6.Product innovation
7.Protecting secrecy
8.Product life Cycle hypothesis
9. Avoiding Tariffs and quotas

Merits of MNCs
- access to consumers
- access to labour
-reduces taxes and other cost
- economic development
-reduces technology gap
- better research and development
- easy export and import

Demerits of MNCs
- law
- political risk
- danger for the domestic industries
- Exploitation of natural resources
- repatriation of profits

- transfer of capital
- self interest

Regulation of MNC in India

MNCs have been operating in India even prior to Independence. They either operated in the form of subsidiaries or entered into collaboration with Indian companies involving sale of technology as well as use of foreign brand names for the final products. Foreign companies which undertake business activities in India or invest in Indian businesses need to comply with certain Indian laws.
- at time of making an investment in India or setting up an Indian office, the foreign company needs to comply with foreign exchange management act.
- if the company sells products or services in India and has an office in India, it will have to comply with Indian tax laws
- it has to comply with local regulations if it has an office.
- it must comply with the provisions of the Companies Act 2013 in respect to the business as it were a company incorporated in India
- delivery of documents to registrar within 30 days from the establishment of place of business in India
- prepare and attach necessary documents and file them with the registrar of Companies
- name of the company and country in which it is incorporated shall be exhibit outside of every office
- every foreign company is not barred from punishment
- it must wind up as an unregistered company if it ceases to carry on business in India.

MNCs in India

- Microsoft Corporation
- IBM
- proctor and gamble
- Nestle
- Coco Cola
- PepsiCo
- CITI Group
- Sony corporation
- Hewlett Packard (HP)
- Apple Inc

Contribution of MNCs to India
1. Profit maximization
2. International Network of marketing
3. Diversification policy
4.Concentration of consumer goods
5.Techniques to achieve public acceptability
6.Transfer of technology
7. Increase in Exports
8. Business but not Social Justice
9 Unconcern towards social responsibilities and business ethics
10. Unconcern for environmental pollution and ecological balance

Transfer of Technology

MNCs are rich in advanced technology. They develop technology through continuous research and development. The rich financial and other resources of the MNCs enable them to invest on research and development and develop the advanced technology. Transfer of Technology is useful to developing economy. Technology transfer is not an easy issue as it has the potential to influence the political and financial relations of countries too. In recent times the link between the technology transfer and foreign direct investment through multinational companies have became Central plank of the issue in all international economics and economic growth debates.