COMMERCE EDUCATION IN THE GLOBAL ERA

Dr. Preeti Grover

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Dr. Preeti Grover (Associate Professor)
M.Ed., Ph.D. (Education), M.Com., Faculty of Education,
Tantia University, Sri Ganganagar

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4378/4-B, Murarilal Street, Ansari Road, Daryaganj, New Delhi-110002.
Ph. No: +91-11-23281685, 41043100, Fax: +91-11-23270680
E-mail: academicuniversitypress@gmail.com

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Preface

Commerce Education in the Global Era presents a comprehensive exploration of the dynamic landscape of commerce education amidst the forces of globalization. The book begins by examining the profound impact of globalization on commerce education, highlighting the need for educators to equip students with the skills and knowledge necessary to thrive in an increasingly interconnected world. It delves into the evolving nature of global markets, trade dynamics, and business practices, emphasizing the importance of a global perspective in commerce education.

Moreover, the text explores the integration of technology in commerce education, recognizing the transformative role of digital tools and platforms in reshaping business operations and strategies. From e-commerce and digital marketing to data analytics and artificial intelligence, educators learn how to incorporate technological advancements into the curriculum to prepare students for the realities of the digital economy.

Furthermore, the book addresses the importance of cross-cultural competence in commerce education. In today's globalized marketplace, understanding cultural nuances, communication styles, and business customs is essential for effective engagement with international partners and customers. Educators explore strategies for fostering cross-cultural awareness and sensitivity among students, preparing them to navigate diverse cultural contexts with confidence and respect.

Additionally, Commerce Education in the Global Era emphasizes the significance of experiential learning opportunities in preparing students for success in the global marketplace. Through internships, study abroad programmes, and industry partnerships, students gain firsthand exposure to real-world business environments, allowing them to apply theoretical knowledge in practical settings and develop essential skills for professional success.

Moreover, the book delves into the ethical dimensions of commerce education in the global era. Educators explore ethical considerations related to international business practices, corporate social responsibility, and sustainability. By integrating ethical discussions into the curriculum, educators foster a sense of social responsibility and ethical leadership among students, equipping them to make responsible decisions in their future careers.

Furthermore, the text addresses emerging trends and challenges in commerce education, such as the rise of disruptive technologies, changing consumer behaviours, and geopolitical uncertainties. Educators examine strategies for adapting curriculum and teaching methodologies to keep pace with these developments, ensuring that students are well-prepared to navigate the complexities of the global business landscape.

This book Commerce Education in the Global Era equips educators with the knowledge,

–Author

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Introduction

Commerce is a division of trade or production which deals with the exchange of goods and services from producer to final consumer. It comprises the trading of something of economic value such as goods, services, information or money between two or more entities. Commerce functions as the central mechanism which drives capitalism and certain other economic systems (but compare command economy, for example). Commercialization or commercialisation consists of the process of transforming something into a product, service or activity which one may then use in commerce.

WORD USAGE

Commerce primarily expresses the fairly abstract notions of buying and selling, whereas *trade* may refer to the exchange of a specific class of goods ("the sugar trade", for example), or to a specific act of exchange (as in "a trade on the stock-exchange").

Business can refer to an organization set up for the purpose of engaging in manufacturing or exchange, as well as serving as a loose synonym of the abstract collective "commerce and industry".

HISTORY

Some commentators trace the origins of commerce to the very start of communication in prehistoric times. Apart from traditional self-sufficiency, trading became a principal facility of prehistoric people, who bartered what they had for goods and services from each other. Historian Peter Watson dates the history of long-distance commerce from circa 150,000 years ago.

In historic times, the introduction of currency as a standardized money facilitated a wider exchange of goods and services. Numismatists have collections of these monies, which include coins from some Ancient World large-scale societies, although initial usage involved unmarked lumps of precious metal. The circulation of a standardized currency provides the major advantage to commerce of overcoming the "double coincidence of wants" necessary for barter trades to occur. For example, if a man who makes pots for a living needs a new house, he may wish to hire someone to build it for him. But he cannot make an equivalent number of pots to equal this service done for him, because even if the builder could build the house, the builder might not want the pots. Currency solved this problem by allowing a society as a whole to assign values and thus to collect goods and services effectively and to store them for later use, or to split them among several providers.

Today commerce includes a complex system of companies that try to maximize their profits by offering products and services to the market (which consists both of individuals and other companies) at the lowest production-cost. There exists a system of0International trade, which some argue has gone too far.

MEANING

The word commerce means that the purchase and sale of product for the sake of earning profits. So there are many people who are engaged in the commerce and business.

The functions of the commerce are coordinating various activities, generate capital, package the products and sell the products on the internet. So this is the reason you can engaged in the commerce as well. There are many businesses which are engaged in the commerce and trade. When a person engages in the commerce then they deal with the different activities like accounting, financing, management, human resource management and marketing. So this is the reason the commerce is in great use in the today world. The purpose of the commerce is to generate business and earn profit for the people so there are different people who are directly engaged in the business and earning their livelihood.

So there is a great importance of the trade and commerce for any country. The generation of the commerce and trade activities in a country boosts the economy of the country and helps to people to earn money out of it.

DEFINITION

For the purpose of obtaining federal registration, "commerce" means all commerce that the U.S., Congress may lawfully regulate; for example, interstate commerce or commerce between the U.S., and another country. "Use in commerce" must be a bona fide use of the mark in the ordinary course of trade, and not use simply made to reserve rights in the mark. Generally, acceptable use is as follows:

- *For Goods:* the mark must appear on the goods, the container for the goods, or displays associated with the goods, and the goods must be sold or transported in commerce.
- *For Services:* the mark must be used or displayed in the sale or advertising of the services, and the services must be rendered in commerce.

  "Use in Commerce" means the bona fide use of a mark in the ordinary course of trade described above.

When you apply for federal trademark registration questions are asked about your mark and commerce, in connection with the goods and/or services indicated in your application.

In practical terms: "Use in Commerce" could mean that your product (goods) or service was sold outside of the state in which it originates or was advertised out of state. The USPTO defines "Interstate Commerce" as sending goods across state lines with the mark displayed on the goods or the packaging for the goods. "Interstate Commerce" for services involves offering a service to those in another state or rendering a service which affects interstate commerce (*e.g.*, restaurants, gas stations, hotels, *etc.*).

BACKGROUND INFORMATION ON GLOBALIZATION AND ITS CONNECTION TO EDUCATION

In today's globalized world, globalization has gained significant prominence, highlighting the increasing interconnectedness and interdependence of nations and societies (Giddens, 1990). Globalization encompasses various aspects, including economic, political, cultural, and technological exchanges between countries (Robertson, 1992). Globalization profoundly influences Education as a fundamental pillar of societal development (Marginson, 2012).

EXPLANATION OF THE CONCEPT OF GLOBALIZATION AND ITS INCREASING INTERCONNECTEDNESS ACROSS NATIONS AND SOCIETIES

Globalization refers to the integration and interdependence of economies, cultures, and societies on a global scale (Robertson, 1992). It is characterized by the free flow of goods, services, capital, ideas, and people across national boundaries (Giddens, 1990). The advancements in communication and transportation technologies, such as the internet and air travel, have facilitated the rapid exchange of information and ideas, contributing to global interconnectedness (Grewal & Kaplan, 2001).

The impact of globalization on education is pervasive and multifaceted. It has transformed the educational landscape by introducing new challenges, opportunities, and complexities (Spring, 2015). Educational institutions and systems are increasingly influenced by global trends, policies, and practices

(Marginson, 2012). The interconnectedness fostered by globalization has led to the dissemination of knowledge and educational practices across borders, enabling the sharing of best practices and innovative approaches (UNESCO, 2015).

Moreover, globalization has influenced curriculum development, teaching methodologies, and educational policies. Integrating global perspectives in curricula prepares students for the globalized workforce and fosters cross-cultural understanding (Spring, 2015). Educational institutions have also adopted teaching methods that promote critical thinking, problem-solving, and adaptability to the changing global landscape (OECD, 2018).

Empirical evidence and robust data are essential to illustrate the impact of globalization on education. Statistical data can provide insights into enrollment trends, international student mobility, and investment in education across countries (OECD, 2018). For instance, international students pursuing higher education have significantly increased, reflecting the global demand for education (UNESCO, 2020).

Additionally, empirical case studies and historical occurrences can offer valuable insights into the specific effects of globalization on education. For example, expanding multinational corporations have established international schools and provided education combining local and global perspectives (Gewirtzman & Yan, 2018). These case studies can highlight globalization's complexities and diverse outcomes in different educational contexts.

Furthermore, theoretical frameworks provide a conceptual lens to understand the relationship between globalization and education. The theories of world systems, cultural imperialism, and glocalization offer insights into the power dynamics, cultural influences, and local adaptations resulting from globalization (Robertson, 1992; Rizvi & Lingard, 2010). These frameworks help analyze the multifaceted nature of globalization's impact on education.

In conclusion, globalization has significantly influenced education, leading to the interconnectedness of educational systems, the integration of global perspectives in curricula, and adopting innovative teaching methods. By analyzing empirical evidence, robust data, illustrative instances, empirical case studies, historical occurrences, and theoretical frameworks, we can understand the impact of globalization on education.

IDENTIFICATION OF THE ROLE OF EDUCATION AS A CRITICAL COMPONENT IN THE GLOBALIZED WORLD

In the globalized world, education plays a crucial role in shaping individuals' abilities, skills, and knowledge to effectively participate in the global society (Marginson, 2016). Education is critical in preparing individuals to navigate the challenges and opportunities globalization brings (OECD, 2018). It equips individuals with the necessary competencies to engage in the global job market, understand diverse cultural perspectives, and contribute to the sustainable development of their communities and the world (United Nations, 2015).

The importance of education in the globalized era is evident in various aspects. Firstly, education promotes economic growth and competitiveness in the global market. Nations with well-developed education systems tend to have higher levels of productivity and innovation, contributing to their economic success (Hanushek & Woessmann, 2015). Education provides individuals with the skills to adapt to technological advancements, respond to changing labour market demands, and participate in the global knowledge-based economy (OECD, 2018).

Secondly, education fosters global citizenship and cross-cultural understanding. In a globalized world characterized by increased mobility and intercultural interactions, education is vital in promoting tolerance, empathy, and respect for diversity (UNESCO, 2015). It enables individuals to understand and appreciate different cultures, languages, and perspectives, leading to a more inclusive and harmonious global society (Marginson, 2016).

Moreover, education contributes to social cohesion and sustainable development. It empowers individuals with the knowledge and skills to address global challenges such as poverty, inequality, environmental degradation, and social injustices (UNESCO, 2015). Through education, individuals can develop critical thinking abilities, problem-solving skills, and a sense of social responsibility, enabling them to actively shape a more equitable and sustainable world (United Nations, 2015).

CLASSIFICATIONS—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, 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 labour, 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. Trading can also refer to the action performed by traders and other market agents in the financial markets.

HISTORY OF TRADE

Trade originated with the start of communication in prehistoric times. Trading was the main facility of prehistoric people, who bartered goods and services from each other before the innovation of the modern day currency. Peter Watson dates the history of long-distance commerce from circa 150,000 years ago.

Trade is believed to have taken place throughout much of recorded human history. There is evidence of the exchange of obsidian and flint during the stone age. Materials used for creating jewelry were traded with Egypt since 3000 BC. Long-range trade routes first appeared in the 3rd millennium BC, when Sumerians in Mesopotamia traded with the Harappan civilization of the Indus Valley. The Phoenicians were noted sea traders, traveling across the Mediterranean Sea, and as far north as Britain for sources of tin to manufacture bronze. For this purpose they established trade colonies the Greeks called emporia. From the beginning of Greek civilization until the fall of the Roman empire in the 5th century, a financially lucrative trade brought valuable spice to Europe from the far east, including China. Roman commerce allowed its empire to flourish and endure. The Roman empire produced a stable and secure transportation network that enabled the shipment of trade goods without fear of significant piracy.

The fall of the Roman empire, and the succeeding Dark Ages brought instability to Western Europe and a near collapse of the trade network. Nevertheless some trade did occur. For instance, Radhanites were a medieval guild or group (the precise meaning of the word is lost to history) of Jewish merchants who traded between the Christians in Europe and the Muslims of the Near East.

The Sogdians dominated the East-West trade route known as the Silk Road after the 4th century AD up to the 8th century AD, with Suyab and Talas ranking among their main centeres in the north. They were the main caravan merchants of Central Asia.

From the 8th to the 11th century, the Vikings and Varangians traded as they sailed from and to Scandinavia. Vikings sailed to Western Europe, while Varangians to Russia. The Hanseatic League was an alliance of trading cities that maintained a trade monopoly over most of Northern Europe and the Baltic, between the 13th and 17th centuries.

Vasco da Gama restarted the European Spice trade in 1498. Prior to his sailing around Africa, the flow of spice into Europe was controlled by Islamic powers, especially Egypt. The spice trade was of major economic importance and helped spur the Age of Exploration. Spices brought to Europe from distant lands were some of the most valuable commodities for their weight, sometimes rivaling gold.

In the 16th century, Holland was the centre of free trade, imposing no exchange controls, and advocating the free movement of goods. Trade in the East Indies was dominated by Portugal in the 16th century, the Netherlands in the 17th century, and the British in the 18th century. The Spanish Empire developed regular trade links across both the Atlantic and the Pacific Oceans.

In 1776, Adam Smith published the paper *An Inquiry into the Nature and Causes of the Wealth of Nations*. It criticised Mercantilism, and argued that economic specialisation could benefit nations just as much as firms.

Since the division of labour was restricted by the size of the market, he said that countries having access to larger markets would be able to divide labour more efficiently and thereby become more productive. Smith said that he considered all rationalisations of import and export controls “dupery”, which hurt the trading nation at the expense of specific industries.

In 1799, the Dutch East India Company, formerly the world’s largest company, became bankrupt, partly due to the rise of competitive free trade.

In 1817, David Ricardo, James Mill and Robert Torrens showed that free trade would benefit the industrially weak as well as the strong, in the famous theory of comparative advantage. In Principles of Political Economy and Taxation Ricardo advanced the doctrine still considered the most counterintuitive in economics:

When an inefficient producer sends the merchandise it produces best to a country able to produce it more efficiently, both countries benefit.

The ascendancy of free trade was primarily based on national advantage in the mid 19th century. That is, the calculation made was whether it was in any particular country’s self-interest to open its borders to imports.

John Stuart Mill proved that a country with monopoly pricing power on the international market could manipulate the terms of trade through maintaining tariffs, and that the response to this might be reciprocity in trade policy. Ricardo and others had suggested this earlier. This was taken as evidence against the universal doctrine of free trade, as it was believed that more of the economic surplus of trade would accrue to a country following *reciprocal*, rather than completely free, trade policies. This was followed within a few years by the infant industry scenario developed by Mill promoting the theory that government had the “duty” to protect young industries, although only for a time necessary for them to develop full capacity. This became the policy in many countries attempting to industrialise and out-compete English exporters. Milton Friedman later continued this vein of thought, showing that in a few circumstances tariffs might be beneficial to the host country; but never for the world at large.

The Great Depression was a major economic recession that ran from 1929 to the late 1930s. During this period, there was a great drop in trade and other economic indicators.

The lack of free trade was considered by many as a principal cause of the depression. Only during the World War II the recession ended in the United States. Also during the war, in 1944, 44 countries signed the Bretton Woods Agreement, intended to prevent national trade barriers, to avoid depressions. It set up rules and institutions to regulate the international political economy: the International Monetary Fund and the International Bank for Reconstruction and Development (later divided into the World Bank and Bank for International Settlements).

These organisations became operational in 1946 after enough countries ratified the agreement. In 1947, 23 countries agreed to the General Agreement on Tariffs and Trade to promote free trade.

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 favoured nation trading status between all signatories.
- EC was transformed into the European Union, which accomplished the Economic and Monnetary 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 a standardised 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. Numismatists have examples of coins from the earliest large-scale societies, although these were initially unmarked lumps of precious metal.

Ancient Sparta minted coins from iron to discourage its citizens from engaging in foreign trade. The system of commodity money in many instances evolved into a system of representative money. In this system, the material that constitutes the money itself had very little intrinsic value, but nonetheless such money achieves significant market value through scarcity or controlled supply.

CURRENT TRENDS

Doha Round

The Doha round of World Trade Organization negotiations aims to lower barriers to trade around the world, with a focus on making trade 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. The Doha round began in Doha, Qatar, and negotiations have subsequently continued in: Cancún, Mexico; Geneva, Switzerland; and Paris, France and Hong Kong.

CHINA

Beginning around 1978, the government of the People's Republic of China (PRC) began an experiment in economic reform. Previously the Communist nation had employed the Soviet-style centrally planned economy, with limited results. They would now utilise a more market-oriented economy, particularly in the so-called Special Economic Zones located in the Guangdong, Fujian, and Hainan.

This reform has been spectacularly successful. By 2004, the GDP of the nation has quadrupled since 2008 and foreign trade exceeded USD 1 trillion. As of 2005, China had become the 3rd largest exporter behind Germany and the United States. This occurred in spite of the backlash from the shootings following Tiananmen Square protests of 1989. In 2007, China's two-way trade totaled US$2,173.8 billion, and was $262.2 billion in surplus. Foreign exchange reserves, the largest in the world, topped $1.8 trillion in mid-2008. In 1991 the PRC joined the Asia-Pacific Economic Cooperation group, a trade-promotion forum. More recently, in 2001 they also joined the World Trade Organization.

INTERNATIONAL TRADE

International trade is the exchange of goods and services across national borders. In most countries, it represents a significant part of GDP. While international trade has been present throughout much of history, its economic, social, and political importance have increased in recent centuries, mainly because of Industrialisation, advanced transportation, globalisation, multinational corporations, and outsourcing. In fact, it is probably the increasing prevalence of international trade that is usually meant by the term "globalisation".

Empirical evidence for the success of trade can be seen in the contrast between countries such as South Korea, which adopted a policy of export-oriented industrialisation, and India, which historically had a more closed policy (although it has begun to open its economy, as of 2005). South Korea has done much better by economic criteria than India over the past fifty years, though its success also has to do with effective state institutions. Trade sanctions against a specific country are sometimes imposed, in order to punish that country for some action. An embargo, a severe form of externally imposed isolation, is a blockade of all trade by one country on another. For example, the United States has had an embargo against Cuba for over 40 years.

Although there are usually few trade restrictions within countries, international trade is usually regulated by governmental quotas and restrictions, and often taxed by tariffs. Tariffs are usually on imports, but sometimes countries may impose export tariffs or subsidies. All of these are called trade barriers. If a government removes all trade barriers, a condition of free trade exists. A government that implements a protectionist policy establishes trade barriers.

The fair trade movement, also known as the trade justice movement, promotes the use of labour, environmental and social standards for the production of commodities, particularly those exported from the Third and Second Worlds to the First World. Such ideas have also sparked a debate on whether trade itself should be codified as a human right.

Standards may be voluntarily adhered to by importing firms, or enforced by governments through a combination of employment and commercial law. Proposed and practiced fair trade policies vary widely, ranging from the commonly adhered to prohibition of goods made using slave labour to minimum price support schemes such as those for coffee in the 1980s. Non-governmental organizations also play a role in promoting fair trade standards by serving as independent monitors of compliance with fairtrade labelling requirements.

COMPARISON OF COMMERCE WITH BUSINESS AND ECONOMICS

In the social sciences, economics is the study of human choice behaviour and the methodology used in making production decisions; in particular, though not limited to, how those choices and decisions determine the allocation of scarce resources and their affect on production, distribution, and consumption. Economics studies how individuals and societies seek to satisfy needs and wants through incentives, choices, and allocations within a given set of resource constraints. Alfred Marshall in the late 19th century informally described economics as "the study of man in the ordinary business of life."

The word "economics" is from the Greek words, meaning "family, household, estate," and [nomos], or "custom, law," and hence literally means "household management" or "management of the state." An economist is a person using economic concepts and data in the course of employment, or someone who has earned a university degree in the subject.

The field may be divided in several different ways, most popularly microeconomics (at the level of individual choices) vs. macroeconomics (aggregate results), but also descriptive vs. normative, mainstream vs. heterodox, and by subfield. Economics has many direct applications in business, personal finance, and government. Theories and empirical techniques developed as a part of economics have, given that economics is fundamentally about human decision making, been applied to non-monetary choices in fields as diverse as criminal behaviour, scientific research, death, politics, health, education, family, dating, *etc.* In economics, business is the social science of managing people to organize and maintain collective productivity toward accomplishing particular creative and productive goals, usually to generate revenue.

2

Characteristics of E-Commerce

LEADERSHIP

To move forward with e-commerce, the CEO and other senior managers must pursue several initial activities. Leadership comprises words and deeds, explicit and implicit behaviour, control of purse-strings, and leadership by example. Successful e-commerce leadership has four main characteristics, which can be implemented as follows.

- *Commitment at the Top: The CEO and Other Senior Managers Must Embrace E-Commerce.* Implementing an e-commerce plan requires strong leadership at the top of the organization. The CEO and other senior managers must understand the issues surrounding e-commerce well enough to evaluate the organization's strengths and weaknesses and make appropriate decisions on strategy, structure, and systems. The CEO must view IT and its applications as a vital component of the company's strategy and publicly demonstrate this belief through words and actions. The CEO must also adopt the attitude that e-commerce is not optional. The company may decide to have a larger or smaller role for e-commerce and may develop that role quickly or slowly, and it may sell directly to customers or limit its major initiative to the back-end systems, but it cannot ignore e-commerce entirely.

— Commitment at the top
— Thorough competitive analysis
— Significant financial investment
— Cultural transformation

Many CEOs have become e-commerce believers by discussing the topic with more experienced executives at other companies. For example, a conversation with Michael Dell of Dell Computer led Jack Welch at GE to hasten his company's movement into large scale e-commerce activities. Others, such as Howard Lester at Williams-Sonoma, have been convinced by believers within their own firm through some positive pilot e-commerce projects. In any case, the CEO should begin an earnest dialogue with people who understand e-commerce to learn about its successes and failures in relevant industries.

Other leadership roles are also important. The CIO must be a proactive member of the senior management team who communicates well with the CEO about the usefulness of IT applications. Rather than serving strictly as a technologist, the CIO must also be a strategist. The CIO should serve in a leadership role in cross-functional teams that combine business units, IT, and e-commerce.

The CFO needs to understand the strategic role of IT in the business and consider its ramifications in funding decisions. Other members of the senior management team should have an active role in e-commerce, in a direct advisory role when it relates to specific relevant areas of responsibility and in a support role for other areas of the company. If possible, senior management should include persons who have prior e-commerce experience.

- *Thorough Competitive Analysis: Determine Company's E-Commerce Position.* In crafting an appropriate e-commerce strategy, it is vital for the company first to understand its e-commerce position relative to competitors. At this point, there are few industries where there has not been a first mover in the use of e-commerce.

  Even in industries where traditional companies have been laggards, pure-play companies have stepped into the void with varying levels of success. In fact, in most industries, a pure-play of some type was the first mover.

This existence of a first-mover competitor does not mean that other companies in an industry cannot gain competitive advantage over their traditional competitors by making significant e-commerce investments and efforts. CEOs who find themselves in an early-mover position should continue to invest and innovate to maintain their advantage. Charles Schwab built a significant advantage over competitor Merrill Lynch, despite having been preceded online by pure-play competitors such as E*Trade.

If a company is a late mover into e-commerce, it can still desire to be the first to provide a particular service, combination of services, or other unique value proposition. Catching up, however, often requires a very high level of investment and a willingness to explore new business models and processes. Regardless of position, a CEO must adopt a broader mode of thinking about competitors because in e-commerce, industry boundaries are more blurred and competition can come from unlikely sources.

- *Significant Financial Investment: Determine Appropriate Role of E-Commerce.* Once the CEO has evaluated the company's e-commerce position relative to other industry members and specific competitors, a decision must be made as to the appropriate role of e-commerce within the company.

Given the increased usage of the Internet by leading companies in most industries, the senior managers will typically need to move forward with expanding or at least maintaining the company's current e-commerce position relative to its competitors.

The relevant decisions include whether the company is going to sell online and, if so, how its offerings will compare with its traditional offerings. It should also consider the geographic scope of its e-commerce sales, since the Internet permits unlimited worldwide access, which can introduce a myriad of complications and challenges. The extent to which e-commerce will be utilized in procurement and distribution must also be considered, as well as internal functions such as human resources, accounting, and marketing.

Of primary importance is that the company determine appropriate levels of IT activities and provide for appropriate levels of IT funding. This approach requires taking all necessary steps, including acquisitions or strategic alliances, to ensure that the company's IT capabilities are sufficient for a successful e-commerce venture.

The CEO must then work with other executives to ascertain the amount of investment necessary to fully implement the chosen e-commerce strategy. Investment decisions should be primarily strategic, and returns should be viewed, including the measurement of both short-term and long-term value creation, with a broad view of potential impacts.

- *Cultural Transformation: Determine Implementation Needs.* Since structure and systems can be used to implement strategy, most systems decisions are made after an e-commerce strategy has been formulated. But at an attitudinal level, cultural transformation will usually begin even earlier.

  Senior managers have a responsibility to establish a minimum level of IT acceptance and competence throughout the company by demonstrating and communicating commitment and creating appropriate training programmes. Some companies will be better prepared for this transition than others; senior managers must carefully consider the required preparation and the implications for implementation speed.

To rapidly implement an e-commerce strategy, IT and e-commerce basics and the purpose of e-commerce must be understood. Communicating purpose is one of the most important actions of a CEO. Employees must realize that e-commerce represents an important challenge and opportunity rather than a threat.

Whether the e-commerce strategy is to be implemented within a month or a year, a sense of urgency is required. The CEO must present e-commerce as having the power to transform the organization in a positive way. Equivocation at every level, from the CFO's hesitation to fund technology to the salesperson's fear that e-commerce will decrease personal commissions, must be avoided. That does not mean reckless risk-taking to move forward, but it does mean a committed acceptance of e-commerce throughout the organization.

STRATEGY

In designing an e-commerce strategy, it is critical to recognize what the Internet changes. Not every value proposition in traditional commerce can attract customers in e-commerce, and not every traditional strategy is a viable source of increased profitability. The best strategies do not ignore the fundamental properties of the Internet and the behaviour of its users.

The organization must develop strategies for e-commerce operations that are consistent with overall corporate strategy. (Since this is a dynamic model, the order of appearance of these elements may be different. Strategy may precede leadership and resource commitments and structure and systems already in place may constrain the strategy decision.) The goals should include an increase in customer acquisition, enhanced channel optimization, improved customer loyalty and retention, and capturing value for the organization.

- Well-positioned online brand
- Online-friendly offerings
- Reliable customer service
- Cross-channel coordination

Four strategic moves are:

- *Well-Positioned Online Brand: Acquiring Customers and Building Trust.* The simplest way for companies to initiate e-commerce operations is to transfer the brand name to the Internet, using the company's name as the domain name so that existing customers and potential new customers can easily find the company's Web site.

  The company can then advertise the Web site in various physical locations and in all print publicity materials. All letterheads, business cards, other types of business publications, and traditional advertising media should include the Web site address.

  In-store signage, kiosks, advertising on bags, and other materials have also been successful in drawing customers to the online channel. Large online marketing campaigns are likely to produce click-throughs and hits, but not customers, and have typically proved to have poor payoffs.

A brand name will draw customers to the company's site and can help assure customers about the quality of the offerings, the accuracy of the information, and the security of the Web transactions on that site. The brand name can also promote customer loyalty.

The company must continue to provide the level of service and security that the brand name implies, or it will fail to attract repeat online customers and may even damage the traditional brand.

If the company's traditional brand is centered on price competition, it must reevaluate this strategy for e-commerce. Price competition is rarely a viable source of profitability in e-commerce. Search costs for comparing prices are negligible online, and price wars have typically led to prices decreasing to just at or above cost.

The Internet also offers easy access to stores that offer price differentials, because customers do not need to travel any physical distance to get to any given store. Only in limited contexts should companies expect to achieve long-term competitive advantage based on price.

- *Online-Friendly Offerings: Product Selection and Differentiation.* The company must decide what products to offer on the Web site. Companies such as Office Depot have found that they are able to provide more total products to customers through Web sites. Physical store space limits the number of inventory items available in stores, while the Web enables the company to provide a larger product offering. Even when integrating their offline and online brand management, a company should not feel compelled to offer precisely the same products online as in its physical stores. The ability to offer a large quantity of products, especially in retail industries, is a major inducement to acquiring an online channel.

Further, it is fully appropriate for a company to eliminate online offerings that are simply unprofitable or otherwise inappropriate. General retailers such as Wal-Mart and grocers have used price minimums, margin requirements, and category restrictions to limit their online offerings. Some companies also require a minimum total purchase on their Web site.

Companies should also consider peripheral offerings in addition to those provided by the company's physical facilities. Such additions are especially appropriate for companies in service industries and companies with large business-to-business (B2B) components. For example, Office Depot's business services offerings are a strong complement to its office supplies business.

Another differentiator is offering customers the ability to obtain unique or uniquely tailored products or information. Customization can be a powerful differentiator because it allows customers to control the product or service choices, and loyalty can be built partly due to high switching costs. Personalization gives customers their very own version of the site that can include information and recommendations based on the customers' prior purchases and demographics.

- *Reliable Customer Service: Inspiring Loyalty among Customers.* Building trust online requires more than a strong brand; it requires strong customer service practices that emphasize the convenience of the online channel. The customer must trust the company and its Web site. Trust can be built through assurances of privacy and transaction security and by providing accurate information.

  Trust in the transaction's completion is built through prompt and accurate fulfillment of orders. Many people purchase at Amazon rather than other Web sites because of its consistently highly rated fulfillment and customer service operations.

Web site design also contributes to satisfying customers. Basic characteristics of the site, such as simplicity, legibility, clarity, and a professional look, are necessities for all Web sites. Strong search engines are especially important for companies with a large number of product offerings. Information about physical stores, customer service, and delivery and return policies should be easily accessible from the home page. Technology should be a facilitator and not an end in itself, however, and the company should not invest too heavily in design features without being confident of their appeal. Neiman Marcus found that its customers were not interested in viewing luxury products on a high-technology platform. Barnes and Noble discovered that they could not create interest in online parallels to their in-store coffee bars and author visits.

The site should also provide a number of services for customers who need information about the site, the offerings, or products they have purchased. These include comprehensive FAQ (frequently asked questions) sections, easily accessible information on delivery and returns, and rapid email response and technical support, where appropriate.

Numerous delivery options should be available to the customer to allow for both speed and low-cost preferences. Companies such as Nordstrom's, which offers products that need to be examined in person before the sale is complete, have provided particularly generous return policies to overcome the hesitation to purchase online inherent in their product line.

Physical stores can also be used for pick-up of items that are needed immediately in industries such as pharmacies. Customers should also be offered convenient opportunities to return defective or unsatisfactory products, including returning such products to the physical stores.

- *Cross-Channel Coordination: Convenience and Revenue Stimulation.* The Web site and physical stores should not be seen as two separate entities that happen to share a brand name. Cross-marketing is an important component, but ultimately, the online and traditional stores must have complementary roles in the overall corporate strategy. Exploiting the advantages of integration means more than drawing customers to the Web site through promotion in the physical store.

Allowing online customers to pick up and return orders to physical stores provides customers with choices and convenience, bringing more traffic to the physical stores. Initially many traditional companies did not allow online customers to return purchased products to their stores.

Today, virtually everyone allows customers to return undesired items to physical store locations. Numerous studies have shown the propensity of customers to make additional purchases when drawn to the store by online-generated functions. Therefore, the Web site should include an easily accessible store locator function that includes a map to the location, a phone number, and store hours.

The physical store and online operations can each be used to stimulate sales in the other channel. Some products that require high levels of interaction with the product can be introduced to the online customer but sold in the physical locations. Kiosks that provide a computerized access to the online site, on the other hand, have been a successful mechanism in physical stores to stimulate online traffic. Many retailers have encouraged the use of kiosks to order online products not available in the physical store or when delivery of the products is more convenient. Kiosks are also effective in overcoming concerns about online shopping for less computer literate customers.

The Web site can also provide more convenience for customers who wish to purchase specific items immediately rather than wait for delivery. For example, Office Depot can now direct customers to local stores that currently have the product in inventory. Customers need not call all the local stores and tolerate taped messages and long waits to find a product. Even Internet pure-play companies like Amazon, through its alliance with Borders, for which it provides Web site operations, can direct customers to the nearest Borders store that has a desired product. Customers need only provide a zip code.

Integration of physical stores and online operations can also lead to greater efficiencies. Supply chain advantages that lead to more effective purchasing, inventory control, and logistics management may enhance the company's overall cost structure and result in greater profitability.

STRUCTURE

After formulating an e-commerce strategy, senior managers must develop a plan for implementation. The company's organizational structure may at times conflict with the goals of e-commerce, and senior managers must anticipate these conflicts and act accordingly, whether by changing the structure of the traditional organization or by creating new structures specific to e-commerce. These considerations span the areas of financing, management teams, and operations. A final consideration is the use of strategic alliances.

- *Internal Investment: Maintain Full-Equity Interest in E-Commerce.* The company faces a decision about equity for the e-commerce venture, whether to retain complete ownership in the e-commerce venture or to spin it off as an independent company.

  The lessons are clear. Many high-profile failures occurred in traditional companies that tried to imitate the pure-play model by spinning off. Investment in the venture should be made from within the firm, and reliance on outside capital typically seems like an indicator of trepidation about e-commerce on the part of senior management.

Spinning off e-commerce was popular in the early period of e-commerce, and the results have generally been disastrous. Building up large market capitalizations through IPOs was a popular trend, but it has become less desirable in a weaker and more skeptical stock market. The vast majority of these companies, including Wal-Mart, Kmart, Barnes and Noble, and Staples, have bought back the stock from equity partners and folded the e-commerce spin-offs back into the company.

- Internal investment
- Integrated management teams
- IT know-how from within
- Strategic partnerships

The other main justification for spinning off was that the company lacked the experience needed to pursue e-commerce or that additional investment capital was necessary. While it may be true that stand-alone firms sometimes find it easier to quickly develop e-commerce expertise, integrated e-commerce ventures in large organizations can also do this. Since e-commerce capabilities are becoming an increasingly important core competency, companies should develop the expertise and control the e-commerce operation inside the company through a full integration into business units and functions.

- *Integrated Management Teams: Innovate without Spinning Off.* From the distribution side, e-commerce should often be seen as simply another sales channel and thus changes in the management structure are kept to a minimum.

  In industries that already have multiple channels such as banks (*i.e.*, physical branches, ATM) and catalog businesses (*e.g.*, Nordstrom), an integrated structure is particularly relevant. With full integration, business functions such as marketing are easy to coordinate and organizational territorial conflicts are reduced. A less ideal but still viable alternative is to create a separate business unit for e-commerce. Many companies that began with spin-offs and then brought e-commerce back within the company chose to adopt separate strategic business units (SBUs).

Many companies have started their e-commerce operations with entirely separate management teams, often proposed to increase the focus on innovation and e-commerce, under the premise that e-commerce will not be given enough attention or independence by senior management at the parent organization. These management teams have often been established far from company headquarters, have had loose organizational cultures, and have been led by independent leadership often drawn from pure-play or other entrepreneurial companies.

Certainly innovation, flexibility, and creativity are needed to drive a successful e-commerce operation. But we have seen that this can occur successfully within traditional organizational boundaries. A formal set of management control structures and systems is necessary to balance the desired empowerment. When separate business units are established, they should function primarily to coordinate the full integration of e-commerce throughout the business units.

As with other organizational functions, it is sometimes desirable initially to establish a central organization both to drive and to coordinate these new activities. But, as the function matures, it should generally be more fully integrated into the business units. The separate functional units and the integrated functions within the business units may need unique structures and systems including unique performance measures and compensation and reward systems, but this customization of the organizational structure can be accomplished within existing organizational boundaries. There is no need to spin off core capabilities and detach valuable corporate assets.

- *IT Know-How from Within: Building Future Capabilities.* Not every company, especially those late to e-commerce, will have invested well enough in IT to develop e-commerce independently. Many e-commerce companies, even those with strong IT departments, have chosen to outsource e-commerce because of the necessity of speed.
  Speed is indeed a powerful motivation for outsourcing, but outsourcing should be used to catch up, not to give up. Although outsourcing may be used initially to create e-commerce solutions, the company can reassume control over e-commerce and IT and eventually can use the e-commerce systems for traditional commerce as well. Staples followed this approach in attempting to catch its IT-leader rival, Office Depot. Staples invested heavily in IT to build technology close to its core capabilities, but also created a sole-sourcing partnership to avoid delays in more peripheral areas of the business.

Another alternative is to acquire IT capabilities by purchasing a small IT firm and integrating the firm while the e-commerce solution is being implemented. UPS has followed this approach several times in its attempt to hold its IT leadership position over rival Federal Express, and UPS has been able to continually roll out new services while integrating its acquisitions.

Other companies, however, have made the mistake of selling equity to venture capitalists and then relied on these partners for all of their IT needs. Barnes and Noble made this mistake and then was hamstrung further when Amazon sued them for a patent violation related to their Web platform. Borders and Toys 'R' Us have taken the dramatic approach of having a competitor, Amazon, run their Web site for them. Companies must learn from these mistakes and not place themselves in such a precarious position with respect to IT.

- *Strategic Alliances: Moving beyond Core Competencies.* Although companies are advised to maintain equity interest, management control, and IT integration, traditional businesses can benefit from alliances with online companies in other ways. These relationships are most beneficial when the arrangement gives the traditional company access to supply-chain management, peripheral offerings, and customer bases.

Supply-chain management is a particularly useful area for partnership when the company cannot simply supply online customers from the same distribution channels as physical stores. Wal-Mart, Kmart, and Target have all made such arrangements to deal with their general merchandising businesses. CVS also simplified its procurement process for its Web site by entering into a partnership with Merck.com.

To provide peripheral offerings that will be available only online, alliances have also proven to be a successful approach. Neiman Marcus partnered with several luxury retailers to create a limited-scope "luxury portal" of high-end goods within its Web site. CVS partnered with WebMD to provide medical advice to complement pharmacy services.

Finally, traditional companies can gain access to large online customer bases by making strategic alliances with portal and ISP companies. Wal-Mart and

Kmart entered agreements with AOL and Yahoo respectively to co-brand Internet service packages that would bring their customers online and to their site in particular.

Traditional companies may also profit from providing a physical presence to online companies that are realizing the inevitable trend toward integrated channels. Target has agreed to house E*Trade kiosks and customer representatives in its stores, in what has been a beneficial relationship for both parties. For E*Trade, the Target deal was just one aspect of a bricks-and-clicks strategy that culminated with the building of a New York super-centre.

SYSTEMS

Senior managers must finally ensure that organizational processes are capable of implementing the e-commerce strategy. Information practices, human resources, performance measures, and customer management are all areas in which traditional systems may require adaptation to implement an e-commerce strategy.

- *Modernized Internal Processes: Using Information Effectively.* The cultural transformation described earlier may be enough to make e-commerce possible, but more must be done to maximize its benefits. Information practices must be adapted to promote transparency and availability.

  Changes must ensure that information flows freely throughout the company and is not hampered by artificial organizational boundaries or personal ambitions.

— Modernized internal processes
— Incentive-laden HR practices
— Aligned performance measures
— Improved customer management

In addition to information sharing, the decision-making processes of the company should be reconsidered. Cross-functional teams and remotely located teams should be assembled with greater frequency, with less emphasis on hierarchical reporting. Decision makers should also have greater self-governance and flexibility.

An important internal process is value chain management. Every company should identify ways to leverage the Internet in each part of the value chain, from procurement to distribution to delivery. In fact, failure to adopt e-commerce-specific cost savings will likely put a company at a serious competitive disadvantage. Strong supply chain management is often the basis for providing superior service.

In the area of procurement, a company can reduce the cost of goods sold by obtaining products through the Internet. Distribution strategies must not only cut costs but also provide the fastest and most convenient customer service. Delivery strategies should maximize convenience and speed for customers, using both the Internet and the company's existing infrastructure to provide these benefits. The best supply-chain practices, however, depend on the type of offering.

- *Incentive-Laden HR Practices: Bringing Your People on Board.* Compensation systems must be aligned with strategy and structure for the e-commerce venture to be a success. The CIO must be compensated as a member of the senior management team to signal the importance and respect shown for the IT function and the centrality and commitment to improved IT and e-commerce.
  At lower organizational levels, compensation systems have additional consequences on alignment. By compensating e-commerce managers the same as managers in traditional commerce, the company sometimes fails to create the necessary incentives for e-commerce success. Though parallel compensation systems can often work, both market forces and the need for speed, creativity, flexibility, innovation, and extra diligence often requires additional incentives and rewards.

Differential compensation, often through stock options, can create an incentive to cannibalize from the company's traditional channels. Such practices can cause conflicts with traditional business units but are often necessary to optimize the use of each channel, especially during the formative years of the e-commerce initiative.

Typically, e-commerce compensation should be tied to the overall success of the venture rather than rewarding individual units or channels for performance. This is particularly relevant when the company is seeking full integration, because it helps ensure cooperation and seamlessness between departments.

The Internet also provides opportunities to improve the hiring process. Cisco is just one company that has found great benefits from hiring online, including lowered costs, faster filling of positions, and higher competence. Companies may also want to consider specialized HR practices for their IT departments.

- *Aligned Performance Measures: Planning for the Long-Term.* Strong measurement practices are among the cornerstones of all good systems. Performance measures for e-commerce must overcome the uncertainty and unique dynamics associated with the Internet, and they may be more frequently adjusted in response to real-time information.
  With these considerations, it is clear that no company should simply extend its existing performance measures to the e-commerce venture without extensive customization. Still, long-term cost differentials, balanced with a variety of financial, nonfinancial, and leading and lagging indicators, are particularly useful for successful e-commerce implementations.

Some skeptical companies have made unreasonable demands with respect to e-commerce performance. Because they misconceived e-commerce risks and rewards, they had unrealistic expectations of immediate growth and ROI that would not be demanded of any traditional long-term investment. Worse yet, they tied further investment to achievement of these goals, dooming e-commerce before it even could get off the ground.

In most companies, new projects and ventures require short-term ROI, and revenue projections, many of which an e-commerce venture and its related projects may not meet. If the company decides to enter or expand e-commerce, it cannot hamstring the venture by insisting on such short-term requirements throughout.

E-commerce has also led many companies to create performance measures other than revenue, ROI, and traditional financial indicators. Some of the new, poorly designed performance measures have had a disastrous effect on strategy implementation.

For example, indiscriminate customer acquisition and attempting to maximize revenue through online advertising often have negative implications for long-term profitability. Single-purchase customers and advertising revenue independent of the company's value proposition are not sustainable strategies. Worse still are nonfinancial measures such as Web page hits and registered users, which may not even be tied to a short-term revenue stream.

In addition to measuring the performance of the business, e-commerce brings added importance to measuring the value and functionality of operations. Most e-commerce strategies will have a strong operational component, including cost savings from value chain management and cuts in labour costs for the online channel. Operational measures should be tracked by some dedicated resource and balanced between financial and nonfinancial assessments of operational performance.

Moreover, companies must create a value capture process to evaluate the success of IT projects associated with the e-commerce venture. Looking at nonfinancial performance measures, the value capture process can help convince skeptical employees of the importance of IT. Even with the value capture process, however, the full benefits of IT investment are often underestimated.

- *Improved Customer Management: Better Service and Better Data.* Companies must also reconsider the internal processes required to provide the high levels of customer service necessary in e-commerce. Online customers need access to some level of customer service at all times.

  There is a trade-off between service that entails a high level of human input and service that is automated and more cost-efficient. Finding the proper balance is a function of the company's offerings, its customer base, and customer feedback.

Customer data is a significant benefit in e-commerce, because of the vast amount that can be learned about customers during a Web site visit in contrast to an in-store visit. Many Web sites, however, have mistakenly focused only on counting hits and visits, while ignoring the more valuable information that can be gathered.

Tracking of customers' interaction with the Web site can be used to identify customers' price sensitivity and information preferences and to gauge satisfaction with the Web site design and accessibility. Gathering and using customer information is important to refine the value proposition and better allocate internal resources. Marketing strategies for the Web site can also be continually refined, using real-time information gathered from customers during their visits, a practice that Staples has used well.

Once a company has established an e-commerce strategy, organizational structure becomes a primary concern in the process of implementing that strategy. In many cases, e-commerce will not initially fit neatly into the existing organizational structure of a traditional company. E-commerce, even to the most technologically savvy company, represents a new channel for procurement, distribution, and sales. E-commerce ventures also put new demands on individuals and business units at every level of the company.

A dynamic model in which strong and supportive leadership and a well-formulated strategy provide the basis for transforming a company through e-commerce. To implement that strategy, structure and systems must be adapted for e-commerce.

Corporate strategy, structure, systems, resources and the external environment are all both inputs and constraints to the determination of e-commerce strategy, structure, and systems. Planning for an e-commerce venture should use the existing structure to determine what existing company strengths can be utilized or enhanced with e-commerce. Implicitly, even some companies that have been unsuccessful in e-commerce have grasped this fact.

But instead of treating existing structure as an input, companies have often treated it as an impediment to e-commerce, deciding to create an entirely new structure outside the organization. They believed that they could not create a new e-commerce structure inside the organization that could effectively implement the e-commerce strategy. They also did not believe they could integrate an e-commerce operation into the corporate strategy, structures, or systems. Sometimes e-commerce was split off as a separate company, sometimes it was separated as a separate functional or business unit, and in a few cases it was fully integrated.

These concerns have been at the core in the debate over structure in e-commerce. Through the late 1990s, companies feared the disruptive nature of e-commerce and were unwilling to make changes in existing company structures and systems. Many companies chose to separate e-commerce from the main company structure.

These separate-structure decisions included establishing separate business units far from company headquarters, creating separate management teams, outsourcing of the entire e-commerce platform, and selling large equity ownership of the e-commerce business to venture capitalists and other outside interests.

Many of these companies have belatedly realized the value of an integrated structure for e-commerce. High-profile failures may have served to convince uncommitted leaders, but the rationale for integration runs much deeper than an analysis of past outcomes. The application of fundamental business principles should also make the benefits of an integrated organizational structure abundantly clear. Some previous discussions on e-commerce have divided the debate of e-commerce structure into a number of separate decision dimensions. Some have encouraged executives to consider integration or separation of equity, brand, management, and operations, while others focused on leveraging two dimensions, the financial and the operational. Although these dimensions are relevant in terms of developing an e-commerce structure, careful choices must be made.

Companies must rely on a well-developed and coordinated implementation of an e-commerce strategy, with aligned e-commerce structure and systems. It would have made little sense, for example, if Wells Fargo had integrated its management structure and operations and then followed in the footsteps of competitors, such as Bank One, by creating a new brand for e-com-merce. Likewise, Office Depot would likely have destroyed most of the benefits of its operational integration if it had sold equity in OfficeDepot.com to a venture capitalist.

In the final analysis, the most fundamental analysis is whether or not to integrate e-commerce, and this choice should direct all the subsequent financial, management, and operational decisions. The implementation of an e-commerce strategy can take different forms, and the structure and speed of implementation are part of the strategic choices. However, companies should make a commitment to long-term full integration. It is the path to that full corporate integration that is an issue. A lack of commitment to e-commerce integration can cause wavering dedication on the part of the company. While Bank of America is currently a leader in online banking, it faced early obstacles because it initially pursued an integrated e-commerce approach. It later moved on to a separate strategic business unit to foster creativity, and then had to switch back to an integrated approach.

Solutions are also described for problems faced when companies lack the internal capabily to fully implement the e-commerce strategies. Finally, the contexts in which external strategic alliances can be a desirable solution are presented.

MOVING TOWARD AN INTEGRATED COMPANY

It's clear that, while looking at integration as the ideal solution is a useful mantra, implementing a full integration strategy is challenging. Systems and strategy must be aligned to both the corporate and the e-commerce structures for success. There should be a commitment to stay within the organization for the financing, management, and operational capabilities that e-commerce requires, where possible.

At times, this commitment is difficult. Challenging financial decisions may make venture capital and the prospect of an initial public offering of a separate e-commerce entity look desirable, as it did to many in the late 1990s. In addition, managers may need to take on new responsibilities, implement new policies, and deal with conflicts that could be more easily handled by a separate management team. Systems will likely need to change. Speed may be sacrificed to develop a Web platform internally, when outsourcing could put the platform online weeks or months earlier.

None of this, however, justifies the inconsistency that occurs between a viable internally constructed e-commerce strategy and a separated e-commerce structure.

At its most basic level, integration means viewing e-commerce as an integral part of an existing business. Many companies have demonstrated a commitment to integration by refusing to break out e-commerce profit, revenue, or other financial figures to the public. Rather, it is an additional important channel for procurement and distribution in addition to other important uses.

Financing E-Commerce and E-Commerce Structure

An integrated company should not spin off its e-commerce operation, because this new aspect of a company's business is essential to the future of the organization and creates significant future corporate value. Unfortunately, this lesson has been a painful experience for many companies in e-commerce's brief history.

Companies have turned to venture capitalists to sell stock in their e-commerce venture for several reasons, which have not always been about money. E-commerce expertise was one of the main capabilities sought by companies such as Wal-Mart, Staples, and Nordstrom.

Other reasons for turning to venture capitalists have included access to managerial talent, back-end technological capabilities, speed of implementation, and fulfillment services. Unfortunately, a major contributing factor to the decision of many companies to spin off their e-commerce venture has been the need to respond to a perceived competitive threat.

But the venture capital model of e-commerce has been exposed as doing significant damage to integration strategies. In most cases, selling equity to venture capitalists was followed by setting up a new management structure with reduced input from the parent company and more input from those interested in bidding up the stock price of the dot.com. At the same time, the technical side was almost entirely outsourced, often to the consulting arm of the venture capitalist, with little or no input from IT professionals who knew the industry. Under these conditions, nearly every benefit of e-commerce, including cross-promotion, economies of scale, and supply-chain efficiencies, was wasted or rendered impossible.

This system also created a cycle of dependency, wherein companies were rendered incapable of further advances in e-commerce without the support of this new management structure or a second outside source of e-commerce experience. The examples are numerous, and the experiences of companies across industries have been remarkably similar:

Why Companies Spin off E-Commerce

E-Commerce Management and Separate E-Commerce Business Units

While the spin-offs were failing, companies looked for other creative ways of achieving "separation" without spinning the e-commerce venture off entirely. One method has been to create a separate business unit so divorced from company headquarters as to seem to be its own organization.

This separation may be achieved by physical distance, radically different business unit structure, systems, rewards, and culture, or the selection of leadership to run the unit. Some companies have elected to have entirely separate management structures. One concern is whether these structures can aid in the implementation of an effective e-commerce strategy that is focused on ultimate company-wide integration of e-commerce. For many companies, the preferred approach is to establish an e-commerce unit flexible enough to foster innovation but integrated enough to be consistent with a well-formulated e-commerce strategy.

This type of unit should largely resemble the company's other business units, serving as a profit centre and reporting through normal channels and the existing hierarchy on issues ranging from the effectiveness of e-commerce initiatives to the integration of those initiatives within the overall structure of the company. It may, however, have different management control systems from the rest of the company, especially in the areas of performance measures and incentive systems. It is these differences, not pretenses of geographic distance or office design, that can truly foster innovation.A successful separate business unit for e-commerce displays numerous attributes.

- The SBU should be well integrated into the traditional business management structure so that the goals of the SBU are aligned with those of the company.
- A primary function of the SBU should be to lead the company's integration effort to the point where the e-commerce initiative becomes a part of every level of the company, not just the original SBU, to both increase revenues and decrease costs.
- The SBU should be given enough freedom to utilize e-commerce in ways that were not possible for the traditional business of the company.
- The SBU should be charged with specific goals regarding the company's e-commerce strategy and integration efforts.

The e-commerce unit, however, may also take on some characteristics of a traditional functional unit. Depending on their breadth, these units are sometimes treated instead as cost centers to serve the business units rather than external customers. In addition to integrating the Web channel with other channels and business units, the unit (whether functional or business unit) may also provide e-commerce solutions to other parts of the company and integrate the company's back-end systems. Some examples of separate business units and the forms they have taken include the following.

- UPS formed a wholly-owned subsidiary, e-Ventures, in 2000 to provide services for small and medium e-commerce companies. The unit operated semi-autonomously but used the same trucks and warehouses as the rest of the company. The unit boosted its capabilities by acquiring a number of smaller logistics firms.
- Tesco built its grocery internet unit out of Tesco Direct, a small unit that began direct retailing in the mid 1990s, and opened a Web site in 1996. Tesco.com was also a 100 percent-owned subsidiary, although at one point there was discussion of a possible spin-off. Internal investment in the unit was cautious, with an eye on gradual geographical expansion.

  The unit chose not to build inhouse warehouses, instead supplying customer orders directly from the physical stores' shelves. The Web site did, however, offer more heterogeneous product offerings, including music, small electronics, and dishware.
- Wells Fargo runs e-commerce from a very tightly integrated "total business unit" that treats the Internet as another delivery channel. There is strong integration on both the front end and back end, with offline customers automatically signed up for an online account, and aggressive cross-promotion. The unit does not separately track profitability for e-commerce, but it points to lower attrition rates and higher purchase rates as measures of success.

Some successful companies have chosen not to create a separate business unit for e-commerce, instead treating the Web as a co-equal with other sales channels and integrating it throughout the organization. Still others have created a hybrid business unit that combines e-commerce and other parts of the business, such as catalog sales, in a much more limited fashion than full integration.

The rationale is that catalog sales and Web sales have much in common, especially in contrast with a physical store channel. Moreover, because of the expenses associated with mailing catalogs and maintaining catalog call centers, an effort to shift catalog customers to the Internet is highly cost-effective. Nordstrom Direct, which evolved after Nordstrom.com was folded back into the parent company, is an example of this structure.

Keeping e-commerce management internal is vital to implementing e-commerce strategy, but the successful implementation of e-commerce must also allow for flexibility in the management structure. The IT backbone that implements back-end systems for e-commerce should also provide the basis for a highly networked organizational structure. As such, the company can reap the benefits of decentralization without incurring the high costs or loss of the advantages of a more centralized and integrated structure.

OUTSOURCING

Though typically not desirable, outsourcing of IT as a part of e-commerce is not always a harmful decision. In limited contexts, the benefits of outsourcing can outweigh the costs of contradicting the integration paradigm. Back-end capabilities should, however, be developed internally in cases where they are related to a core competence, represent a source of competitive advantage, or involve unique or idiosyncratic activities. To understand those proper contexts, one must examine the range of IT capabilities relevant to e-commerce.

- IT infrastructure is a first priority for a company seeking an integrated e-commerce effort, and speed is a strong consideration. Although a company's legacy systems may have their unique characteristics, the software and hardware in this area is highly imitable and does not represent a likely source of competitive advantage. Therefore, a company should feel equally comfortable outsourcing this task or acquiring the capabilities and handling it internally.
- In functional areas such as payroll and human resources, e-commerce can also provide ample opportunities for cost savings. Software packages in these areas are also commodities and an unlikely source of competitive advantage.

  If upgrading capabilities in these areas is a part of the overall integration of e-commerce and it is not a core organizational competency, outsourcing may be an acceptable approach. For smaller firms, these commoditized solutions can provide relatively similar, if not superior, capabilities in areas such as payroll and human resources at a fraction of the cost of an in-house approach.
- Logistics is a third area in which a company has a reasonable choice between internal fulfillment and outsourcing. If logistics has been a core competency in traditional commerce, such as was the case with Wal-Mart, it should continue to be handled internally for e-commerce. If, however, fulfillment capabilities cannot be quickly and cost-effectively developed from within, outsourcing may be an acceptable alternative, in that it is unlikely to matter to customers by whom the order is fulfilled.

Despite its spin-off model of e-commerce, Staples showed an understanding of this contrast through its model of IT development. Its IT department focused on solutions that directly impacted the customer, while it outsourced back-end operations to a single vendor. This single-vendor form of outsourcing sometimes increases costs in the short term, but it often saves costs related to future vendor competition and is a good alternative to internal development because of uniformity and clear lines of responsibility.

It also facilitates a much easier integration if the company decides to bring the capabilities inside at a later date. When operational capabilities involve direct interaction with the customer, outsourcing becomes a generally undesirable choice. Web site design and customer service related to the Web site must be core competencies for any large company seeking success in e-commerce.

Failure to develop core competencies in these areas is an indication that a company has not made enough of a commitment or investment in e-commerce.

Proceeding without developing these competencies is likely to do considerable damage to the brand name and future customer acquisition and retention efforts.

WEB SITE DESIGN AND INTERNET PLATFORM

Building a Web platform is an activity that should typically be handled internally. Web site design expertise is widely available and may be acquired if necessary. Though utilizing consultants and Web site design firms can provide some valuable needed guidance and experience, handing the task off completely to a consulting firm often prevents the company from imparting vital business-specific knowledge into building the site. It also lengthens the learning period for employees who will need to understand the site's design, while at the same time handicapping the company's future e-commerce development by not cultivating this knowledge internally. The design of the site is closely tied to the customer service and support capabilities of the site, which are among the most vital capabilities to develop from within.

Many companies that have gone outside the company for Web site design have done so because of the service capabilities provided by their partner. The highest profile examples have been alliances between Amazon and Toys'R'Us, Borders, and Target, among others. No one story describes the relationships with the companies that have partnered with Amazon.

- Toys 'R' Us partnered with Amazon because of its failure to develop internal e-commerce capabilities, especially in the area of fulfillment. Even as a venture capital-funded spinoff, the e-commerce venture of Toys 'R' Us was running out of money and had created too much damage to the company's reputation to grow revenue.
- Borders joined Amazon because they realized that Amazon's first-mover advantage within the bookstore industry prevented Borders from becoming an industry leader in e-commerce capabilities. This union permitted Borders to have a relatively easy-to-maintain digital "storefront" for its traditional brick-and-mortar operations, without competing against Amazon on the electronic front.
- Target's agreement sought to capitalize on Amazon's unique customer-care capabilities while eliminating the need for separate fulfillment partners. Target had rejected the spin-off model of e-commerce initially attempted by competitors Wal-Mart and Kmart but determined that its brand-driven integration strategy would not work without stronger fulfillment capabilities.

These alliances notwithstanding, a company often sacrifices a substantial amount by turning its customer service capabilities over to a third party. Amazon's reputation and capabilities are unique online, and since not every company can hope to strike a similar alliance with Amazon, its example should not be viewed as a generalizable model for e-commerce success. The more reliable approach is to build and acquire the necessary resources to handle customer service from within and integrate both online and physical channels for maximum customer convenience.

PARTICULARS OF E-COMMERCE ALLIANCES

A strong rationale for funding, managing, and providing IT solutions for e-commerce from within the organization. Selling part of the e-commerce venture or outsourcing operations to IT firms simply does not usually permit a company to reap the maximum benefits of e-commerce.

At times, however, it may be in a company's interest to go outside the firm and form strategic alliances with companies in the same or complementary industries. As is the case with outsourcing operations, such as the relationships with Amazon, alliances should not generally relate to the company's core competencies. They also should not typically relate to customer interaction activities such as customer service and fulfillment, unless there are clear advantages related to a company's capabilities.

In two areas, however, alliances have been very successful in e-commerce: procurement and customer acquisition. For procurement, alliances can help overcome some of the unresolved issues on the B2B side of e-commerce. Although e-commerce clearly provides a potential for vast savings in purchasing, not all industries have been able to realise these savings. Industry leaders such as Dell, GE, and Wal-Mart have been able to realise these savings, while at the same time sending their competitors scrambling to catch up, as detailed in the following.

- The union of HP and Compaq has provided many challenges and opportunities. However, a major obstacle in the company's competition with Dell has been its attempt to meet Dell's level of productivity by cultivating the type of supplier alliances that have given Dell such an advantage over others. The merged company is hoping that the union of the two companies will allow it to overcome its entrenched supplier methods and improve performance.
- Omnexus is an alliance of many of GE's competitors in the plastics industry. Facing competition from both GE's well-established

Polymerland and pure-play public market PlasticsNet, the founders of Omnexus tried to carve out a position by offering scale (founders included BASF, DuPont, Bayer, and Celanese) while maintaining GE's more private format and hosting value-added services. Omnexus' alliance partners, many of whom have their core competencies in chemicals rather than plastics, maintain some internal control over the venture while having the advantages of a collaboration that may lead to a less costly and more successful strategy.

- The Worldwide Retail Exchange (WWRE) is a large partnership that includes discount retailers Kmart and Target, pharmacies, and a host of specialty retailers. The WWRE allowed Kmart and Target to compete with Wal-Mart on the procurement side because of the sheer scale of the WWRE's buyers. Because the WWRE is integrated with each company's systems, these benefits are achieved without damaging the overall integration for the company, which is especially relevant for Target, which was one of the earliest advocates of full e-commerce integration.

Alliances have also been used to gain access to new customer bases through some of the sites that serve as portals for the Internet. Viewed broadly, this category includes Internet service providers such as AOL, portals such as Yahoo, browser operators like Microsoft, and the increasingly ubiquitous Amazon.com and eBay. Companies in a variety of industries have attempted to draw customers from these central locations to their businesses.

- Office Depot struck a deal with Amazon that allowed it access to the bookstore giant's huge customer base. Unlike deals with Toys 'R' Us and Borders, this deal did not entail Amazon taking over operations for Office Depot. Rather, it is only a complement to the originally successful OfficeDepot.com. The Amazon component of Office Depot is more targeted to the individual consumer than the B2B-friendly OfficeDepot.com.
- Bank One was the first company to partner with Microsoft and its new line of.NET services in 2002. The partnership allows BankOne's online customers easier access to a variety of online services, but it also calls for Microsoft to sell BankOne products through the widely used MSN.com and Hotmail.
- UPS entered a partnership with eBay to allow customers in the consumer to consumer (C2C) transactions easier access to shipping options. The deal was more than simply a link to UPS.com; a special shipping function was integrated directly into eBay's site. UPS was able to access a new customer base in an industry that does not typically lend itself to online marketing.

In each of these deals, the company was able to benefit from an outside alliance without threatening an overall integration strategy. Some of the characteristics of successful e-commerce alliances are:

- Alliances should not be used to substitute for deficiencies in aspects of a company that are core competencies.
- Typically, alliances should not be used in ways directly related to customer interaction.
- Alliances can be used to reinforce B2B relationships for needs such as procurement and support systems.
- Sharing of information, ranging from customer information to production data, is essential in successful alliances.

3

Global Capital Market

In the case of international capital markets, there are simply more of players and a greater diversity in the players and the possible combinations.

Firms can obtain funds via both debt and equity. To raise funds via debt, a firm owes investor money (They borrow). To raise funds via equity, a firm sells partial ownership (stock) to an investor.

There are two main reasons why an international capital market offers an improvement over a purely domestic capital market:

(1) From a borrower's perspective, it increases the supply of funds available for borrowing and lowers the cost of capital; and

(2) From an investor's perspective, it provides a wider range of investment opportunities, thereby allowing investors to build a portfolio of international investments that diversifies risk.

If there is limited liquidity in a purely domestic capital market, the cost of capital is higher relative to what would be found in an international market. With an increase in the choices available to an investor, the investor is able to diversify holdings internationally, thereby reducing systematic risk below what could be achieved in a purely domestic market.

While the systematic risks are reduced with international portfolio investments, exchange rate risks now come into play.

GROWTH OF THE GLOBAL CAPITAL MARKET

De-regulation and improvements in technology have facilitated the growth of the international capital market. Due to advances in communications and data processing capabilities, the international capital markets are always active around the globe. International trading is an information intensive activity that would not have been possible only a few decades ago when computing and telecommunication capabilities were much less developed.

The deregulation of capital flows, a removal of limitations on the types services that can be provided by foreign financial services firms, and a reduction in the restrictions imposed on domestic financial services firms have all contributed to the growth of the international capital market.

While capital is generally free to move internationally, evidence to date suggests that most investors choose to make long term investments in their home country and only make short term opportunistic investments elsewhere.

A lack of information about the fundamental quality of foreign investments may encourage speculative flows in the global capital market.

The Country Focus on Mexico and the global capital markets shows that a country cannot count on capital inflows to finance its deficits, especially when the money that is being invested is not there for the long term..

THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT

The opening case on foreign investment in South Africa underlines the importance of political and social stability as a condition for the inflow of foreign capital. It also points out the futility and counter productiveness of the use of trade sanctions as an agent of economic change.

Home country governments can also affect ability of firms to take resources out of the country for investment elsewhere.

In addition to understanding the explicit rules laid out by home and host country governments, firms must evaluate their bargaining position and appropriate negotiating stances when they wish to alter established rules for FDI.

POLITICAL IDEOLOGY AND FDI

The Radical/Marxist view of FDI suggested that FDI by MNEs from advanced capitalist nations keeps the less developed countries of the world relatively backward and dependent upon advanced capitalist nations for investment, jobs, and technology. According to this view, FDI is an instrument of economic domination — not economic development.

The radical view was popular from WWII into the 1980s, and practiced in Eastern Europe, India, China, and many socialist third world countries.

By the end of the 1980s, the radical position was generally disregarded, due to the collapse of communism, the abysmal economic performance of most of the countries that practiced the radical approach, and the contrasting strong economic performance of those developing countries that had embraced a freer market approach (*i.e.*, Singapore, Hong Kong, South Korea).

The free market view sees the MNE as an instrument for dispersing the production and flow of goods and services in their most efficient manner. It is built on the philosophy of Smith and Ricardo and supported by the market imperfections explanation of FDI. While the free market view is embraced by most advanced and developing nations, almost all countries impose some restrictions on FDI. Most countries have adopted a policy of "pragmatic nationalism," which lies somewhere between the radical and free market views.

The pragmatic approach suggests that governments should pursue policies designed to maximize the national benefits and minimize the national costs of FDI.

Whereas in earlier years many countries discouraged FDI, or placed limits on the ownership level held by MNEs, many countries are now actively courting MNEs for FDI (as indicated in the opening case). That aggressiveness is also consistent with a pragmatic approach, as countries are offering inducements that would not be appropriate in a purely free market approach.

Examples of pragmatic policies are in Japan, the USA, and several EC countries.

THE BENEFITS OF FDI TO HOST COUNTRIES

- From a free market view, the best policy would be for all countries to stop intervening in the investment decisions of MNEs. In their view the benefits are generally so much greater than the costs that pragmatic nationalism will likely end up creating. These costs include both barriers and incentives from many countries, with the result that all countries are worse off than they would be under a free market approach.
- Due to MNEs large size and access to international capital markets, they may have resources available to them that smaller nationally based firms do not, and they may be able to bring resources into a country that would not be brought in otherwise.
- Technology is critical to economic growth, and MNEs may bring product and process technology into a country. Hence, not only is the technology valuable in itself, but also it may spur economic growth and the development of new technological capabilities.
- FDI may bring in managerial skills, increase the productive use of a country's resources, and spill over into improving the management talent in other firms that come into contact with the MNE.
- FDI can lead to increased employment and the creation of new jobs. Critics point out, however, that the reported number of jobs created do not often take into account the loss of jobs that may have occurred in other firms or regions of a country. Simply put, if Germany has gained jobs, has France lost jobs?
- FDI can have a beneficial effect on a country's balance of payments by (i) the initial capital investment, (ii) substituting for imports that contribute to a current account deficit, and (iii) the current account surplus that results from exporting the products produced from a facility built with the initial FDI.

- FDI can also spur competition and economic growth in a country. Previously stodgy and protected firms may have to improve their product offerings and lower prices in order to compete on an international level. There can also be "follow the leader" effects, where the FDI of one firm will lead to subsequent FDI by other firms. This will also lead to increased competition and more choices for consumers.

THE COSTS OF FDI TO HOST COUNTRIES

- MNEs operating in a particular country may have greater economic strength than domestic competitors and may subsidize operations in a country in order to drive out domestic competitors.
- Countries may want to restrict FDI in industries they wish to protect until their own "infant" firms have the strength to compete against established MNEs.
- When MNEs repatriate profits from FDI, these outflows show up as debits to a capital account.
- If MNEs import a great deal of components for assembly into the products produced in a host country, it will have an unfavorable impact the trade or current account balance.
- Some countries may feel that their national sovereignty is threatened by foreign MNEs that make decisions that affect the country from distant locations.

THE BENEFITS AND COSTS OF FDI TO HOME COUNTRIES

The benefits of FDI to the home country include an improvement in the balance of payments as a result of the inward flow of foreign earnings, positive employment effects when the foreign subsidiary creates demands for home country exports, and benefits from a reverse resource transfer effect.

The costs of FDI to the home country include adverse balance of payments effects that arise from the initial capital outflow, export substitution effects on the current account, and the potential loss of jobs to foreign operations. There is much political rhetoric in the US regarding lost jobs to Mexico by US firms that moved some assembly operations south of the border.

Even when there are negative short-term employment effects, in the long term these jobs would likely be lost in any case to foreign competitors.

Moving production offshore can free up resources and people for other jobs where their value added is greater and may prove a net benefit to consumers that now have access to less expensive products.

GOVERNMENT POLICY INSTRUMENTS AND FDI

Home countries can encourage FDI by offering insurance, making funds available, pressuring host governments to remove barriers, and initiating tax incentives.

Home countries can restrict FDI via explicit capital flow controls, punitive tax rules, or specific prohibitions for political concerns. Host countries are increasingly encouraging FDI by offering tax incentives, low interest rate loans, or outright grants and subsidies. Countries, and regions of countries, compete with each other for new plants and facilities.

Host countries can restrict FDI by:

(1) Imposing restraints on the ownership of domestic firms and assets and
(2) Setting specific performance requirements relating to local content, export requirements, technology transfer, or local management participation.

Through the WTO there has been progress on liberalizing rules regarding FDI. That has occurred primarily in the areas of financial services and telecommunications. Work on a much more wide ranging pact on liberalizing FDI internationally has been stalled by a number of countries' hesitation to give up sovereignty over the control of investment in their country.

IMPLICATIONS FOR BUSINESS

A host government's attitude to FDI is a critical issue when considering whether to invest in a particular country.

There is both an art and a science to negotiating. The key to most negotiating is to allow the other part to believe they have "won."

The bargaining power of both the host government and the investing firm. Issues like the potential for technology transfer, effects on the balance of payments, and possibility of job creation (among others) all can change the relative bargaining power of both parties.

Additional notes:

Is India Ready for Full Currency Convertibility?

India's political boldness in seeking peace with Pakistan in their half-century twilight struggle for Kashmir may soon be matched by economic moves equally as daring. Indeed, India is edging toward a truly bold reform: full international convertibility of the rupee. How it goes about this will not only effect India's economic development, but provide object lessons for China as it ponders convertibility in the years ahead.

Since 1991 India has been travelling on a path from rupee devaluation to full convertibility, with the Reserve Bank of India (RBI) relaxing a range of foreign-exchange controls. Resident Indians can now maintain a foreign-currency account and invest in shares of foreign companies, while non-resident Indians can repatriate legacy/inheritance assets. Indian companies listed abroad can buy property in foreign countries, and resident firms will be allowed to pre-pay external commercial debt up to US$100 million. Limits on exporters' foreign-currency accounts will be removed, and banks may invest in overseas money and debt markets.

Is India ready for full convertibility? The government is still lagging on its domestic economic reforms. Structural reform and privatization have slowed, eroding investors' confidence. But failure to address structural problems could expose the economy to external shocks in the long term. Hence it would be premature for India to open up its capital account immediately. Exchange rate stability is the key anchor when a country's reform process is underway. There is, however, little evidence that capital account convertibility has a meaningful impact on a country's growth rate.

With capital-account convertibility, the rupee's exchange rate will be determined more by capital flows than by inflation differentials, as India's inflation rate remains broadly in line with the OECD average of around 3%. Because India is still running a trade deficit, there could be some pressure on the rupee following any negative shock. Although monetary growth is more than twice the rate of real GDP growth, the inflationary risk is probably low because substantial excess capacity exists. Indeed, throughout the 1990s, despite rising output, deflation occurred, which means that India's potential output is expanding.

The moves towards full capital-account convertibility have proceeded in step with impressive growth in India's foreign-currency reserves. Indeed, India's external liquidity position has strengthened dramatically in the past decade. As a result of a current-account surplus and an interest-rate differential of 3-4%, foreign reserves reached $70.3 billion by the end of 2002—enough to cover almost 15 months of imports—up from only US$4 billion in 1990.

Following the 1991 balance of payments crisis, the rupee's exchange rate was devalued around 20%. Exporters could exchange 30% of their earnings at the market rate. This was subsequently replaced with a two-tier exchange-rate system making the rupee partially convertible—60% of export earnings could be converted at the market exchange rate, and the rest at the RBI's fixed rate (used by the government to finance essential imports like petroleum, cooking oil, fertilizers, and life-saving drugs).

The two-tier exchange-rate system acted as an export tax, but it did not survive for long, giving way to a unified exchange rate on the trade account. Full convertibility on the current account followed in August 1994. The policy debate then turned to capital-account convertibility, with the IMF and the World Bank strongly in favour. In May 1997, the Tarapore Committee on Capital Account Convertibility charted a three-stage liberalization process to be completed by 1999-2000, with an accompanying emphasis on fiscal consolidation, a mandated inflation target, and a strong financial system.

Then the East Asian currency crisis put further action on hold and raised serious questions about when—and whether—to proceed. The sudden meltdown of apparently healthy economies served as a stark reminder that strong external liquidity should not be the driving force towards full convertibility. The downside risk of capital-account liberalization, after all, is higher exchange-rate volatility, and even countries with sound liquidity positions could not prevent a run on their reserves. The lesson for India is that, in the event of a domestic or external shock, full convertibility could prove to be a costly, short-lived experiment.

The fundamental question is whether full convertibility will encourage higher net inflows or outflows of capital. The downside risk of higher volatility for the rupee is aggravated by some serious problems, including a deficit running at 6% of GDP and the strategic stand-off with Pakistan. Short-term capital outflows—which might occur should either risk worsen—could create greater output volatility. So it is vital for India to increase the inward flow of long-term capital, regardless of whether the capital account is closed or open. In this context, it is noteworthy that China, with a closed capital account, has foreign-exchange reserves of US$286 billion, four times the size of India's, though China's economy is only double India's size. Nor is full convertibility the key to attracting higher inflows of foreign direct investment (FDI). China attracted FDI inflows of US$52.7 billion in 2002—the largest in the world.

India needs to attract higher FDI inflows to help soak up the economy's excess capacity. This underscores the importance for India's financial stability of successful management of the capital account (monitoring inflows and outflows) following any move toward full convertibility. But, in the near term, full capital account convertibility is not in India's interest.

PURCHASE POWER PARITY ADDITIONAL NOTES

What is Purchasing Power Parity?

Purchasing power parity (PPP) is a theory, which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. When a country's domestic price level is increasing (*i.e.*, a country experiences inflation), that country's exchange rate must depreciated in order to return to PPP.

Law of one Price

The basis for PPP is the "law of one price": In the absence of transportation and other transaction costs, competitive markets will equalize the price of an identical good in two countries when the prices are expressed in the same currency.

For example, a particular TV set that sells for 750 Canadian Dollars [CAD] in Vancouver should cost 500 US Dollars [USD] in Seattle when the exchange rate between Canada and the US is 1.50 CAD/USD. If the price of the TV in Vancouver was only 700 CAD, consumers in Seattle would prefer buying the TV set in Vancouver. If this process (called "arbitrage") is carried out at a large scale, the US consumers buying Canadian goods will bid up the value of the Canadian Dollar, thus making Canadian goods more costly to them. This process continues until the goods have again the same price. There are three caveats with this law of one price.

(1) As mentioned above, transportation costs, barriers to trade, and other transaction costs, can be significant.
(2) There must be competitive markets for the goods and services in both countries.
(3) The law of one price only applies to tradeable goods; immobile goods such as houses, and many services that are local, are of course not traded between countries.

Economists use two versions of Purchasing Power Parity: absolute PPP and relative PPP.

Absolute PPP was described in the previous paragraph; it refers to the equalization of price levels across countries. Put formally, the exchange rate between Canada and the United States $E_{CAD/USD}$ is equal to the price level in Canada P_{CAN} divided by the price level in the United States P_{USA}. Assume that the price level ratio P_{CAD}/P_{USD} implies a PPP exchange rate of 1.3 CAD per 1 USD. If today's exchange rate $E_{CAD/USD}$ is 1.5 CAD per 1 USD, PPP theory implies that the CAD will appreciate (get stronger) against the USD, and the USD will in turn depreciate (get weaker) against the CAD.

Relative PPP refers to rates of changes of price levels, that is, inflation rates. This proposition states that the rate of appreciation of a currency is equal to the difference in inflation rates between the foreign and the home country.

For example, if Canada has an inflation rate of 1% and the US has an inflation rate of 3%, the US Dollar will depreciate against the Canadian Dollar by 2% per year. This proposition holds well empirically especially when the inflation differences are large.

Does PPP Determine Exchange Rates in the Short Term?

No. Exchange rate movements in the short term are news-driven. Announcements about interest rate changes, changes in perception of the growth path of economies and the like are all factors that drive exchange rates in the short run. PPP, by comparison, describes the long run behaviour of exchange rates. The economic forces behind PPP will eventually equalize the purchasing power of currencies. This can take many years, however. A time horizon of 4-10 years would be typical.

How is PPP Calculated?

The simplest way to calculate purchasing power parity between two countries is to compare the price of a "standard" good that is in fact identical across countries.

Every year *The Economist* magazine publishes a light-hearted version of PPP: it's "Hamburger Index" that compares the price of a McDonald's hamburger around the world. More sophisticated versions of PPP look at a large number of goods and services. One of the key problems is that people in different countries consumer very different sets of goods and services, making it difficult to compare the purchasing power between countries.

THE EUROCURRENCY MARKET

A Eurocurrency is any currency that is banked outside of its country of origin. Eurodollars, which account for about two-thirds of all Eurocurrencies, are dollars banked outside of the United States. The Eurocurrency got its origin as holders of dollars outside the USA, initially communist countries but later also middle eastern countries, wanted to deposit their dollars but were afraid that they may be confiscated if deposited in the USA.

The lack of government regulation makes the Eurocurrency market attractive to both depositors and borrowers. Due to the lack of regulation, the spread between the Eurocurrency deposit rate and the Eurocurrency lending rate is less than the spread between the domestic deposit rate and the domestic lending rate. This gives Eurobanks a competitive advantage. The lack of regulation is also a drawback of Eurocurrency deposits, as the risk of forfeiture is greater than for domestic deposits. However, this is not a major problem. There is also a risk of currency fluctuations that would not arise if funds were held domestically in the domestic currency.

THE GLOBAL BOND MARKET

The international bond market falls into two general classifications; the foreign bond market and the Eurobond market. Eurobonds account for the lion's share of international bond issues.

Foreign bonds are sold outside of the borrower's country and are denominated in the currency of the country in which they are issued. A Eurobond issue is normally underwritten by an international syndicate of banks and placed in countries other than the one in whose currency the bond is denominated.

The Eurobond market is an attractive way for companies to raise funds due to the absence of regulatory interference, less stringent disclosure requirements than in most domestic bond markets, and the favorable tax status of Eurobonds.

ECU and Euro denominated bonds became increasingly common in the 1990s. One advantage of these bonds is that the risks associated with exchange rates are lower, since the ECU and Euro are actually a basket of currencies.

THE GLOBAL EQUITY MARKET

There is no international equity market in the same sense that there are international currency and bond markets. Instead there are a number of separate equity markets that are linked via specific equities and overall market fundamentals.

Foreign investors are increasingly investing in different national equity markets, primarily as a way of diversifying risk by diversifying their portfolio of stock holdings across nations.

As firms are listed on multiple national exchanges and have their shares owned by an even greater number of shareholders from different nationalities, it is becoming increasingly meaningless to refer to firms as "American" or "Dutch." For example, the "nationality" of DaimlerChrysler does not matter.

Companies are beginning to list their stock in the equity markets of other nations, primarily as a prelude to issuing stock in the market to raise additional capital. Other reasons for foreign listings include facilitating future stock swaps, using the company's stock and stock options to compensate local management and employees, satisfying local ownership desires, providing access to funding for future acquisitions in a country, and increasing the company's visibility to local employees, customers, suppliers, and bankers

Foreign Exchange Risk and the Cost of Capital

When borrowing funds from the international capital market, companies must weigh the benefits of a lower interest rate against the risks of an increase in the real cost of capital due to adverse exchange rate movements.

Using forward rates cannot typically remove the risk altogether, particularly in the case of long-term investments.

IMPLICATIONS FOR BUSINESS

By utilizing international capital markets, firms can often borrow funds at a lower cost than they could domestically — regardless of whether the funds are in the form of cash loans, equity, or bonds.

The minimal regulation in international capital markets helps lower the cost of capital, but also increases risk in both currencies and security.

For investors, the international capital market provides opportunities for portfolio diversification and the lowering of systematic risk. At the same time, it creates new currency risks.

FOREIGN DIRECT INVESTMENT

With FDI, a firm has a significant ownership in a foreign operation and the potential to affect managerial decisions of the operation.

The goal of our coverage of FDI is to understand the pattern of FDI that occurs between countries, and why firms undertake FDI and become multinational in their operations.

This chapter will describe some of the basic theories of FDI, and why firms undertake FDI rather than simply exporting products or licensing their know-how.

FOREIGN DIRECT INVESTMENT IN THE WORLD ECONOMY

When discussing foreign direct investment, it is important to distinguish between the flow of FDI and the stock of FDI. The flow of FDI refers to the amount of FDI undertaken over a given time period (normally one year). The stock of FDI refers to the total accumulated value of foreign owned assets at a given point in time.

The significant growth in FDI during 1999-2001 has both to do with the political economy of trade as outlined in the previous chapter and the political and economic changes that have been taking place in developing countries. The globalization of the world economy is causing firms to invest worldwide in order to assure their presence in every region of the world. Another important trend is has been the rise of inflows into the US. The stock of foreign FDI in the US increased more rapidly than US FDI abroad.

The rapid increase in FDI growth into the US may be due to the attractiveness of the US market, the falling value of the dollar, and a belief by some foreign corporations that they could manage US assets and workers more efficiently than their American managers could.

It is difficult to say whether the increase in the FDI into the US is good for the country or not. To the extent that foreigners are making more productive use of US assets and workers, it is probably good for the country. The management techniques of Mexican cement manufacturer Cemex for its aggressive international expansion of cement manufacturing. Because cement is a product that is not easily exported due to its low ratio of value to weight, Cemex sought international expansion by acquisition.

HORIZONTAL FOREIGN DIRECT INVESTMENT

Horizontal FDI is FDI in the same industry abroad as a firm operates in at home. A Japanese automobile manufacturer in Japan seeks to produce the same product in the USA. FDI would seem to be more expensive and risky than exporting or licensing, so there must be some other good reasons for firms to undertake FDI.

Transportation costs can make export infeasible, especially for products that have a low value/weight ratio (*i.e.*, cement, soft drinks), or would require refrigeration or similar controlled environments. For items like electronics, software, and medical equipment, transportation costs may not be an impediment to exporting.

The most accepted reason for horizontal FDI relates to market imperfections. By imposing quotas, tariffs, or impediments, governments can make FDI and licensing more attractive than exporting.

Technological or managerial know-how can be difficult and dangerous to license, however, making it an infeasible alternative. A firm can lose control of critical competitive know-how, may not be able to optimize the flow and configuration of operations between countries, or simply may be unable to codify its knowledge in a way that would make licensing a practical option.

Firms may choose to undertake FDI simply to follow the lead of a competitor so as not be left behind or locked out of an opportunity.

FDI may be most likely to occur in certain stages of a product's lifecycle — when other countries have a large enough market to justify local production or when there is a need to locate production in a low cost location.

A firm may choose to undertake FDI in a particular country or region due to location specific advantages. An obvious example occurs with respect to natural resources, but it also applies to the ability to tap into a particular expertise (*e.g.*, silicon valley) or be located near customers or suppliers with unique characteristics. Porter's diamond, provides a partial explanation why firms in certain industries may find it attractive to invest in a particular country.

VERTICAL FOREIGN DIRECT INVESTMENT

Backward vertical FDI involves investment into an industry that provides inputs for a firm's domestic production processes. Forward vertical FDI involves investment in an industry that utilizes the outputs of a firm's domestic production processes.

The strategic behaviour explanation for vertical FDI suggests that firms try to either create new entry barriers or erode competitors' entry barriers. While there certainly are some examples where the strategic behaviour explanation seems to apply, the market imperfections explanation seems to present a more complete explanation.

Market imperfections can result from impediments to the sale of know-how and the need to invest in specialized assets.

Because specialized know-how can be difficult to sell or license, a firm may have to integrate vertically to be successful. The establishment of sales and services centers in high technology industries, or the investment in knowledge intensive extractive processes are two examples.

When specialized assets must be invested in (*i.e.*, the aluminum smelter), companies may need to secure a supply of the needed inputs to assure that those assets can be used efficiently.

IMPLICATIONS FOR BUSINESS

The market imperfections theory suggests that exporting should be preferred to licensing and horizontal FDI as long as transport costs are minor and tariff barriers are trivial. If that is not the case, then firms should consider licensing and FDI.

FDI is more costly than licensing, but may be the most reasonable option. A decision tree suggesting when licensing, FDI, and exporting are most appropriate. Licensing tends not to be a good option in high technology industries where protecting firm specific know-how is critical, in industries where a firm must carefully coordinate and orchestrate its worldwide activities, or where there are intense cost pressures.

4

Global Trade System

The cease of the Uruguay Round in 1994 saw the establishment of a new trading system and related agreements under the auspices of the World Trade Organization. The WTO oversees implementation of the agreements by which member countries, especially those that are developed, reduce tariff rates over a wide range of products. They have made trade weighted tariff cuts that average 40 per cent on industrial products.

The WTO also tightens rules on non-tariff barriers by expecting members to replace NTBs with bound tariff rates. The UR has converted all NTBs for agricultural products into bound tariffs, which have to be cut by an average of 35 per cent. These developments have helped to open potential new markets for emerging agriculture- and resource-based Central Asian countries.

However, as the international trading system becomes more rule-based, it will also be highly competitive. Therefore, new export approaches will be needed.

TRADE CHARACTERISTICS OF CENTRAL ASIA

The export base of Central Asian economies is narrow, comprised mainly of oil and gas, minerals, base metals and cotton. Furthermore, many of the products exported are in their unprocessed forms. Most exports from the Central Asian economies depend on the Russian Federation and other members of the Commonwealth of Independent States. However, efforts have been made to extend markets beyond the Russian Federation and the CIS to the United Kingdom of Great Britain and Northern Ireland, Germany, Turkey, the Republic of Korea and China. Central Asian economies will have to focus on the use of new marketing tools as one priority export-related issue over the next five years in order to meet the following objectives:

- Diversifying the number of markets for their products
- Developing downstream products for export

Central Asian economies formerly had access to materials, machinery, equipment, consumer goods and foodstuffs from a limited number of supply sources, mainly the Russian Federation and some of the other CIS countries. As a result, Central Asian economies developed strong trade links with the Russian Federation and the CIS and could use these links to increase their exports.

However, as the Russian Federation opens its market as a preparation for joining the WTO, Central Asian countries will find increased competition. Therefore, they will have to develop ways to enhance their competitiveness. Central Asian countries are aware of the need for adjustment to the international market environment. They also need to be aware of the major events that have taken place that may influence their trade policies.

DECLINING SIGNIFICANCE OF TRADE CONCESSIONS FOR DEVELOPING COUNTRIES

Previously, developed countries allowed certain exports of developing countries to enter their markets either tariff-free or at preferential tariff rates. For example, under the Lomé Convention, the European Union grants preferential treatment to imports from countries in Africa, the Caribbean and the Pacific. Similarly, Australia and New Zealand grant preferential treatment to imports from Pacific Island nations.

However, following the cease of the UR and the subsequent reduction of tariff rates by developed countries, such preferential rates will become marginalized.

Furthermore, quota restrictions on imports will gradually be lifted. *For example, trade in textiles had been governed by the Multifibre Arrangement, which is a series of bilateral import quotas for textiles and garments produced by developing economies.* The MFA has now been replaced by the new Agreement on Textiles and Clothing. Items covered under the MFA are to be liberalized under ATC.

The liberalization of the multilateral trade system will create export opportunities for Central Asia countries, because it allows them to compete on an equal footing in new markets. However, such new markets will require the use of different marketing strategies.

THE AFTERMATH OF THE ASIAN ECONOMIC CRISIS

The Asian economic crisis, which started in July 1997 spread throughout the region, and extended as far as the Russian Federation and parts of Latin America, resulting in the severe financial collapse of their currencies and financial systems. The impact was greater in the emerging Asian economies, especially in South-East Asia and the Republic of Korea. Heavy debt burdens, massive corporate failures and declining production and output have been common characteristics among the Asian economies hit by the crisis.

The subsequent fall in demand, especially for commodities, had a serious impact on countries with highly commodity dependent economies. The decline in commodity prices reduced real incomes of producers, especially in developing countries of Africa and Latin America. Japan, the world's second largest economy, also went into recession during the later part of 1998. The Japanese banking system was burdened by corporate debt from the 1980s.

If it continues, the crisis would have severe effects on countries that export oil and raw material commodities. However, the situation in Asia has stabilized and optimism slowly returning to the region. With the exception of Indonesia and Hong Kong, China, the rest of Asia was expected to register positive growth in 1999. Japan's economy also rebounded, achieving 1.9 per cent growth during the first quarter of 1999.

The recovery of Asian economies would include increased demand for commodities like cotton, grain, and minerals, creating export opportunities for Central Asian countries. They need to market their products as well as attract Asian investors from Japan and the newly-industrialized Asian economies to invest in downstream production for subsequent export from Central Asian countries back to their home countries.

PRIVATE SECTOR AND PUBLIC SECTOR COOPERATION

Central Asian economies already have existing state trading entities that focus on export and trading. However, changes in the international trade environment make it important for the government to consult with the private sector about the assistance they will need in order to adapt. Governments should have feedback mechanisms and dialogues with the private sector to ensure that rules and regulations facilitate business development.

An example would be the establishment of industry advisory groups that include people from the public and private sector. Similarly, economic agencies should develop channels for feedback as well as information for disseminating to the business community. The regulatory framework should be friendly and relevant to business and should not block business development.

The process of two-way communication will also help in providing appropriate assistance for exports and product development and will enable companies in Central Asian countries to compete.

The right institutions to implement policies need to be set up and nurtured. Private and public sector interactions will influence the bureaucracy to have pro-business attitudes.

State trading enterprises could be restructured to do trading for production companies in the private sector. This form of collaboration between the private and public sector will help the small and medium-sized enterprises in Central Asian countries to persuade STEs to export their products to new markets with minimum transaction costs.

DEVELOPING TRADE CAPACITY

Central Asian economies are well endowed with abundant natural resources such as oil, gas and metals, as well as commodities like cotton, grain, and cereals. These natural resources create the potential to develop horizontal and vertical industrial linkages, which can help to broaden the export base.

The republics of the former Soviet Union were traditional markets for the exports of Central Asian economies. However, when the Russian economy opened, the result was more foreign competition for Central Asian countries. Therefore, Central Asian countries have had to adopt two new approaches:

- Upgrade the quality of their exports in order to compete in the Russian market
- Diversify into other export markets.

The Central Asian governments need to increase their efforts to develop institutions designed to have more efficient trade activities. Trade efficiency can be defined as the effective facilitation and promotion of both exports and imports without friction and at the appropriate cost. Without trade efficiency, export sectors and the supporting physical infrastructure would be unable to help improve economic development of the country.

THE NEED FOR A TRADE PROMOTION ORGANIZATION

Government institutions should be designed and created in order to provide support for the business community, which will build productive capacity, upgrade industrial and agrotechnology, and expand exports and markets. There is therefore an urgent need to create a trade promotion organization. If a TPO is given the right direction and managed effectively, it can play an important, catalytic role in developing and promoting the country's exports. The TPO can also performance as an advisor and facilitator for the government's trade development strategies. TPOs are generally created to be the government's instrument for export promotion and development. However, a TPO could have an expanded role if the government thinks that it would be a suitable complement to help implement the national trade policy. TPOs could help to restructure selected STEs to become export development arms for non-exporting companies.

POLITICAL FACTORS

- The political stability of the nation. Is it a democracy, communist, or dictatorial regime?
- Monetary regulations. Will the seller be paid in a currency that they value or will payments only be accepted in the host nation currency?

ECONOMICAL FACTORS

- Consumer wealth and expenditure within the country.
- National interests and inflation rate.
- Are quotas imposed on your product.
- Are there import tariffs imposed.
- Does the government offer subsidies to national players that make it difficult for you to compete?

SOCIAL FACTORS

- *Language*: Will language be a barrier to communication for you? Does your host nation speak your national language? What is the meaning of your brand name in your host country's language?
- *Customs*: What customs do you have to be aware of within the country? This is important. You need to make sure you do not offend while communicating your message.
- *Social factors*: What are the role of women and family within society?
- *Religion*: How does religion affect behaviour?
- *Values*: what are the values and attitudes of individuals within the market?

TECHNOLOGICAL

- The technological infrastructure of the market.
- Do all homes have access to energy
- Is there an Internet infrastructure. Does this infrastructure support broadband or dial up?
- Will your systems easily integrate with your host countrys?

RESTRICTIVE ADMINISTRATIVE AND TECHNICAL REGULATIONS

These include anti-dumping regulations, size regulations and safety and health regulations. Some of these regulations are intended to keep out foreign foods while others are directed towards legitimate domestic objectives. For example, the safety and pollution regulations being developed in the United States for automobiles are motivated almost entirely by legitimate concerns about highway safety and pollution. However, an effect of the regulations, particularly on smaller foreign manufacturers, has been to make it so expensive to comply with US safety requirements that they have withdrawn from the market.

In 1969 GATT published a 276 page report listing non-tariff barriers to trade. This report, which listed such obscure items as an Italian sanitary tax on foreign snake poison, is already out of date.

Packaging or pesticide regulations often erect a hurdle for exports, but not insurmountably so. The EU has strict hygiene requirements for imports of horticultural produce for Africa which require strict observance. Producers of restrictive administrative regulations are incredibly creative in establishing barriers to trade.

This can be seen in the following case: The example emphasizes how difficult it is to deal with non-tariff barriers to trade. The Mexicans could protest the decisions of the US Department of Agriculture, but the Florida growers who were competing with the Mexican growers, in effect, wrote their own regulations. They maintained that the regulations worked for the benefit of everyone: growers on both sides of the border and the consumer. A strong case could be made for the harm done by these regulations to Mexican growers and US consumers, but the mechanism for hearing this case did not really exist. The Mexican growers could influence this decision by pressuring the US government through diplomatic channels, or try to appeal directly to consumers and thereby influence legislative and administrative action in government. An important test of a ruling or regulation is whether it has a greater impact on foreign producers. If this is the case, and there is no apparent social benefit for consumers, the ruling is a non-tariff barrier.

TARIFF CLASSIFICATION

Before World War II specific duties were widely used and the tariffs of many countries, particularly those in Europe and Latin America, were extremely complex. Since the war the trend has been towards the conversion to ad valorem duties. Tariff administration has been simplified by the adoption by a large number of countries of the Brussels nomenclature (BTN). This nomenclature was worked out by an international committee of experts under the sponsorship of the Customs Cooperation Council, which in 1955 produced a convention that entered into force in 1959.

The rules of this convention are now being applied by most GATT countries. Approximately two-thirds of all world trade is now conducted under tariffs based on the BTN system. It is significant, however, that among major trading nations neither the USA nor Canada uses the BTN. The BTN groups substances mainly according to the material from which they are made. For less-developed countries, it is both easy to use and applicable to the goods they produce. An additional advantage of the BTN is its widespread use. A common basis for the classification of goods facilitates comparison of duties applied by different countries and simplifies international tariff negotiations. In spite of the progress made in simplifying tariff procedures, the task of administrating a tariff presents an enormous problem. Even a tariff schedule of several thousand items cannot clearly describe every product that enters into international trade. The constant flow of new products and new materials used in manufacturing processes introduces new problems. Often, two or more alternative classifications must be considered in assessing the rate on a particular substance depending upon how it is used or its component material.

The classification of a product can make a substantial difference in the duty applied. There are two important implications of this fact for export marketers. The first is that exporters should seek the most favourable classification for their products in order to minimise the duty levied in the importing country. The second is that the difficulties of classification raise serious questions about the accuracy of data on international trade patterns. When using international trade data, it is important to bear in mind the enormous problems posed by classification and recognize that the numbers in trade reports may often reflect hasty and arbitrary classifications that distort the true picture of the trade flow.

Evidence of the inaccuracy of grade classification practices is provided by frequent failure of import and export figures of the same commodity to reconcile between two countries. Some clever marketers seek to get their products reclassified in order to get a lower tariff structure.

WINDS OF CHANGE

The emergence of Japan in the 1970s and 80s, coupled with more trade between developing countries, harmed the balance of payments of the Western economies. Coupled with oil shocks and debt crises, attitudes to trade changed somewhat in the 1980s. In effect free trade was reversed. The Industry and Development Global Report made a series of observations showing that whilst expansion of demand was there, it was patchy and therefore in some sectors excess occurred. Coupled with plans like the CAP of the EU (Common Agricultural Policy of the European Union) which produced "mountains" of butter, sugar, *etc.*, this excess led to downward pressure on prices which newly emerging nations may be better equipped to deal with if raw materials are banned in country.

The growth of economic unions like the EU which are limited multilateral organisations have undermined the strength of GATT agreements but only in so far as non-tariff barriers are concerned. Such non-tariff barriers may merely be devices to soften up foreign rivals and force them into regulatory voluntary restrictions on trade.

The main non-tariff barriers of recent times have been countervailing duty and anti-dumping. Protectionist measures like these can reduce global opportunities in direct ways (imposition of quotas, Health and Safety Standards, *etc.*), affect the attractiveness of marketing offers to intermediaries by affecting market price (tariffs), volume (voluntary restraints) and uncertainty ("proved" dumping cases) or they reduce opportunities by affecting the attractiveness of your offer to end users (cancelling out price advantages).

Anti-dumping is the worst form of protection because anti-dumping creates uncertainty for producers and intermediaries, one needs not be "guilty" to be penalized for it. Anyone entering the industry after a charge of dumping against it will face the highest rate of levy. They can be fined and therefore be driven away and as a result consumers will suffer. In order to circumvent protection, options include avoiding certain commodities or industries, teaming up with local contacts, producing from inside the market or self regulation.

The legal/political system is a minefield, with few international standards or regulations to fall back on. Thankfully, for many agricultural products and agribusinesses like timber, fish, livestock and so on, the rules are fairly well defined. However, change can occur very quickly. The imposition of a transport levy by the South Africans affected Zimbabwe's drought relief programme costs, and the increase of duties by 40% by the same country are hitting Zimbabwe's clothing exports there very hard. Zimbabwe and Botswana, who enjoy large beef quotas with the EU, can be affected overnight by a ban. On a number of occasions the EU has imposed a ban on beef exports from Zimbabwe because of a so called "foot and mouth" outbreak in Zimbabwe, Although minor in scale, its consequences can be major for the industry. Marketers are beholden to always keep a constant watch on changes which are and could occur in the legal/political environment.

THE LEGAL, POLITICAL/TRADE ENVIRONMENT

The legal/political aspect is very important in global marketing. "International law" can be defined as rules and principles that states and nations consider binding upon themselves. This raises two interesting characteristics of international law. The first is that "law" belongs to individual nations and international law only exists to the degree that individual nations are willing to relinquish their rights. The second is the lack of an adequate international judicial and administrative framework or a body of law which would form the basis of a truly comprehensive international legal system.

The international business is also subject to political decrees made by governments both in "home" and "host" countries. Home governments can apply pressure not to deal with disapproved parties. These measures may take the refusal to grant an export licence, or withdrawal of export guarantee cover. The host government may take measures like taxation, ownership controls, operating restrictions or expropriation.

LAWS, RULES, AND STANDARDS

All agricultural exports operate within an institutional environment, which is made up of a set of political, social and legal ground rules. These ground rules form the laws of all production, exchange and distribution and give rise to certain expectations and assurances about the actions of others, and give order and stability to the means of doing business. The most important rules in any system are those defining, allocating and enforcing property rights, and rules and conventions defining allowable and non-allowable forms of cooperation and competition (standards, rules of contract, fair trading etc). Well defined and enforced systems regarding property rights are essential. Articulated ownership and rights to use, trade and alter assets is vital to market development, since this assigns to individuals the right to benefits and losses in production and marketing activities.

Rules and conventions specifying entry conditions and boundaries on cooperative and competitive policies also facilitate exchange and coordination. The establishment and enforcement of standards can reduce transaction costs by increasing the available information to buyers and consumers. Standards may include basic weights, measures, quality grades and contract forms. Quality standards may be mandatory or voluntary and minimum or multiple grades. These standards help where trade is at a distance. The EU has a strict set of standards regarding horticultural products. For example, including hygiene, quality and certificates of origin.

Licensing also facilitates marketing agencies and producers by reducing transaction costs. This occurs when the criteria for licensing revolves around asset holdings, financial solvency and so on. Performance standards are built in to maintain the licensing agreement. Increasingly, consumer and trading bodies like the EU are enforcing the disclosure of more and more information.

Particularly, these efforts revolve around packaging, labelling and information, for example, pesticides used on horticultural produce. As this trend to disclosure of information grows, along with the phenomenon of product liability, regulations regarding certain tests or inspection of products, handling and processing procedures may be enforced. So may ingredient and nutrition information. This is becoming an increasingly important issue as food products become more complex and varied. One of the problems with this noble effort to inform the consumer is that producers may lose their competitive differentiation advantage through divulging information to competitors. The EU has gone to extraordinary lengths to inform the consumer, issuing directives on product descriptions and pricing. For example the EU directive on the pricing of cabbages runs to hundreds of pages and, what constitutes "chocolate" and a "sausage" to name but two products, is quite revealing. The following case proves the point. The EU is also very strict, as is the USA, on food additives or flavour substitutes. It is particularly so for any substance which may have long term harmful effects. The EU produces "E numbers" standards for product additives and artificial colorants or flavourings.

Issues

Most issues in the legal/political environment centre around the following:

- "Institutional environment" - made up of political, social and legal ground rules within which the global marketer must operate.
- Property rights - patents, trademarks.
- Taxation - what taxation plans will be faced abroad?
- Recourse - possibility and length of action with the possibility of image damaging necessitating arbitration.
- Movement of equity and expropriation threats - often necessitating protocols or the signing of trade frameworking agreements.

Efforts to regulate the international legal system include individual country efforts, like the USA International Trade Commission and the GATT system. The GATT system is a set of norms and procedures which member governments have accepted to create order and predictability in international trade relations.

The three basic principles are:

1. Nondiscrimination - each member country must treat the trade of all other member countries equally
2. Open markets which are encouraged by GATT through a prohibition of all forms of protection except customs tariffs,
3. Fair trade which prohibits export subsidies on manufactured products and limits the use of export subsidies on primary products.

None of these principles is fully realised, simply because it is impossible to "police" all sovereign governments and dictate what is or is not tariff or non tariff discriminating. The need to systematically evaluate the legal/political environment cannot be overemphasized. This can be done by reference to the appropriate embassy or government agency or via magazines like "Foreign Affairs" and even by reference to a domestic agency in the host country.

THE POLITICAL ENVIRONMENT

Checks can be made on the legal/political system as to its ideology, nationalism, stability and international relations.

- *Ideology*: A country's ideological leaning may be capitalism, socialism, a mixture or other form. In the last years remarkable changes have been taking place in the ideologies of many countries. The most dramatic example has been the collapse of the communist USSR and Eastern Europe and its replacement with market led policies and ideologies. Similarly, many African countries are abandoning their centrist leanings in favour of market led economies. For example, Zimbabwe and Tanzania.
- *Nationalism*: Whilst, primarily a phenomenon of the developing countries, Yugoslavia has shown it is not entirely so. Nationalism can lead to expropriation of foreign held assets.
- *Stability*: Changes in regime, violence and cultural divisions based on language or other factors can lead to a very uncertain environment in which to conduct business. The current uncertainty in Liberia and Rwanda, the violence of Somalia and Yugoslavia increase the risk and diminish the confidence of doing business in these countries.
- *International relations*: In general international relations have improved over the last twenty years. The development of GATT, NATO and the EU have gone a long way to reduce the element of "foreigness".
- *Expropriation*: Expropriation is an extreme form of political action. It may occur for a number of reasons, including the desire to retain national assets, as a "hostage" situation in international disputes, for example the seizure of Union Carbide's assets after the Bhopal disaster in India. Other government activity, which affects capital investment includes joint venturing insistence and repatriation of funds. "Partnering" remains widespread (inward investment in tandem with a domestic company) as does restrictions on repatriation of funds. In Zimbabwe, for example, HJ Heinz, the multinational food agent, has entered into partnership with Olivine industries. Over time, even if initially the investment is not favourable, the Government may relax its conditions as it sees the benefits.

  If expropriation is a real possibility then the investor should seek to minimise risk by:
  - Relatively rapid depreciation of assets and repatriation of funds by manipulated transfer prices
  - Establish a local supply infrastructure so that any adverse action damages the host economy
  - Raise as much investment capital in the country as possible
  - Retain control of critical inputs and minimise local stocks of these.

However these measures may increase the risk of expropriation or reduce the potential success of the venture.

Incentives: Many countries try to reduce perceived risk by promoting inward investment through the provision of tax breaks, free ports, enterprise zones, *etc.*, which are not tied as in partnering.

The key is to look at what the disadvantages are. If the government mainly wishes to attract the mobile investor, or overcome say poor local skills, one has to assess what would happen if the plan was withdrawn once the capital had been committed. Similarly if viability depends on incentives rather than real return on investment, the question is, is the venture really worth it?

Assessing Political Vulnerability

Political vulnerability should be assessed by using a systematic checklist.

Such a checklist should include the following:

- The firm's own country's relations with other countries
- Sensitivity of the product or industry
- Size and location of operation - the bigger the more vulnerable
- Visibility of firm - is it high profile say via advertising?
- Host country's political situation
- Company behaviour - is it a good corporate citizen?
- Contribution to host country, *for example, employment*
- Localisation of operations
- Subsidiary dependence.

Depending on the answers to these checkpoints, the amount of risk, real or perceived, can be assessed and fed into the investment discussion.

Marketing Implications

Political factors give rise to a number of marketing implications.

These include the following:

- Is the product ever subject to political debate regarding adequacy of supply, *for example, oil?*
- Is the product a critical input for other industries, *for example, cement?*
- Is the product socially or politically sensitive, *for example, food?*
- Is the product of national defence significance?
- Is the product taking a disproportional amount of capital repayment?
- Is the product leading to the locus of control being held outside of the host country?

Again, the answers to these questions will enable the marketer to assess the degree to which the product being marketed has to be priced and resourced, so as to either avoid or reduce the risk of expropriation or other political reactions.

5

Economics of Web Based Business

We need an economic model to complete the analysis carried out in the above sections. Transaction cost analysis provides a viable economic frame work for understanding the business on the Web.

Transaction Cost Economics

Transaction Cost Economics owes its origin to Ronald Coase and was further developed by Oliver Williamson. A key concept in production is the firm. A firm is an economic institution that transforms factors of production into consumer goods. A firm (a) organizes factors of production, (b) produces goods, and/or (c) sells produced goods to individuals. The firm operates within a market, but simultaneously, it is a negation of the market in the sense that it replaces the market with command and control.

How an economy operates—which activities are organized through markets, and which activities are organized through firms—depends upon transaction costs—costs of undertaking trades through the market—and the rent or command over resources that organizers can appropriate to themselves by organizing production in a certain way.

Markets, on their part, reduce the cost of exchanges (transaction costs) as people dealing through market mechanisms do not need to negotiate and enforce individual contracts as well as do not need to acquire and process information about alternatives.

Generally, the less organized the market, the higher the transaction costs. Historically, the less costly it has become to disseminate information through technological improvements, the more transaction costs have fallen.

Transaction Cost Economics moves away from the simplistic assumption of classical economics that exchange mechanisms taking place through the price mechanism are homogeneous. In actuality additional transactions take place outside simplistic price mechanisms in our complex modern world, and they all entail a cost. These "non-price" costs, transaction costs, are treated as basic unit of analysis in Transaction Cost Economics.

As opposed to the costs of producing real products, transaction costs are the costs of organizing economic activity. These costs come from four major sources, the first two arising from a characteristic of human nature while the other two from environmental factors. Web based business helps in reducing all of the four types of transaction costs.

1. *Bounded Rationality.* Human beings have a limited capacity to receive, store and process information. Because of this limitation, an uncertainty is introduced in the decision making process even though all the data needed for a rational decision making is theoretically available. This uncertainty is different from and is in addition to the market uncertainty.
2. *Opportunism.* This is a type of behaviour in which individuals attempt to realize gains "through a lack of candor or honesty in transactions" and seek self interest. More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse.
3. *Market Uncertainty.* This refers to the unpredictable change of price, quality, supply, or demand for the intermediate product. Uncertainty arises from random acts of nature, unpredictable changes in consumer preferences and lack of communication.
4. *Asset Specificity.* Transaction costs due to asset specificity arise when traders' options for transferring their businesses to alternative suppliers or buyers are limited. This happens in the common situation where parties are engaged in trade that is supported by non-trivial investments in transaction specific assets. Characteristics of asset specificity are:
   - Specific, substantial investments in special-purpose equipment
   - Small number of buyers and sellers, few alternative buyers of products
   - Small numbers bargaining power due to a small market, producer gets locked into a specific investment in capital and firm specific human capital.

Besides these four factors, Williamson introduces another concept of "information impactedness" which is a condition where private information about a transaction is exploited for opportunistic behaviour, thus compounding the increase in transaction costs. From the perspective of Information Technology, transaction costs are the costs of all the information processing necessary to coordinate the work of people and machines that perform the primary processes, like determining the design, price, quality, delivery schedule and similar factors for products transferred between adjacent steps in a value chain. Purpose of Information Technology is to bring down transaction costs and that is the criterion against which we will evaluate the business use of the Web.

Transaction Costs and Business on the Web

Bounded Rationality: The World Wide Web, or for that matter any other technology, can do little to improve or supplant human thinking or information processing capacity. All the promises of AI based "smart machines" which were at one time thought to greatly parallel human thinking haven't yet materialized. What modern computers have however done is: (a) due to their increased data processing capacity, they have helped in producing information faster and cheaper and (b) the Internet, arising out of its near zero marginal cost of providing information to an additional user, has produced a great Information surplus, the proverbial "information overload".

Despite this limitation of the technology, it has the potential to reduce transaction costs due to bounded rationality in two ways: (i) by providing search engines, the older ones like Veronica, Archie, WAIS and the newer ones like Yahoo!, Lycos, OpenText, *etc.* These search engines have the potential to provide the right and timely information to decision makers, although the real technology still has quite a way to go towards making information retrieval quick and easy (ii) secondly, and *this is where the real power of Internet might lie*, the Internet opens all echelons of management, indeed the entire organization, to vast information resources. Therefore, more and more heads in the organization get involved into processing information. Thus, although individual information processing capacity doesn't go up, *the collective information processing capacity of the organization increases.* Reaping benefits of this aspect of bringing an organization on Internet, will however require some fundamental changes in organizational culture and thinking. A parallel to this culture is the quality circle concept used successfully in Japanese manufacturing firms.

Another important benefit which can accrue from bringing Internet to an entire organization is that traditionally overworked and time-constrained top management have been responsible for scanning the external environment for new product/service idea to support/formulate strategy for the organization. In Internet linked companies, practically the whole organization can perform (or atleast assist in) this process by participating in forums like Usenet and visiting interesting home pages. Obviously such a firm wide participation requires an open and trusting management style as well as a careful, Internet training programme.

Opportunism: The Web reduces transaction costs associated with opportunism in an interesting manner: not by altering the human nature (which, probably is the job of priests!) but by reducing information impactedness. And this has to do with the nature of the Internet, and not human nature.

The entire culture of Internet has been open, collaborative and non-hierarchical. This is quite the antithesis of opportunism. Infact doing business on the Internet changes the business in major ways. In their recent article, Benjamin and Wigand have demonstrated how doing business on the Internet can reduce profits in the value chain and reduce the cost to the customer. This, obviously, would result in a smaller pie for the industry which goes on the Web. However, because of the reduced costs to customers, the number of pies would increase and the overall profitability will most likely remain unchanged, if not go up.

It might well be that the Internet will help businesses move towards the ideal of perfect competition with the buyers and sellers having complete and ready information about one another, as was envisaged by Adam Smith in his classic Wealth of Nations. In the long run Web-based business will be good for the economy because as a rule an innovation that cuts costs and raises productivity will tend to raise economic well-being and create new industries and opportunities.

The definition of opportunism, that "...opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" very aptly applies to modern day advertising. And the modern day advertising as well as the media which carry them, especially the TV, have been criticized for their unhealthy effects on consumers. If advertising on the Web is any indication of the role of advertising in future, a major source of opportunism will either disappear or atleast will be substantially curtailed. Basic reasons for this are in the nature and culture of the Internet itself as well as in the interactive nature of this medium. Also, consumers have more time and space than the traditional 30 seconds on TV or 10 lines (and fine print) in the newsmedia to evaluate a product. Advertising on the Web is more in the nature of informing the customers by way of making substantial data and "white papers" available to them. Then there is the power of the Usenet where products, services and software are discussed and evaluated with free abandon. One case in point is the careful evaluation of travel agents providing air-tickets to travel to India. These travel agents are constantly evaluated by regular feedback from users and their responses are archived and made publicly available on the Internet. Consequently, a travel agent now requires to be "net certified" before her/his services are bought.

Market Uncertainty: Some of the arguments given in the section on bounded rationality apply here also. Also, because of certain unique marketing functions performed by the Internet, market uncertainty can be reduced more from the data collected by the Web pages maintained by a business than by other traditional means like market research.

The Web affords the provision of marketing information which was not otherwise available. Analysis of the log files for the Web server access show which pages are being browsed by visitors. As stated elsewhere, it is now possible to see what consumers who do not make a purchase look at. This can provide timely and unique market intelligence. Also, on-line surveys can help in collecting users responses and provide useful demographic data. Infact for a number of high activity sites, the only "price" which a visitor pays is in terms of time in filling out an on-line subscription form.

Asset Speicificity: The Web can help in reducing transaction costs associates with asset specificity arising out of both, a specific investment in capital and firm specific human capital. The Web changes the modes of doing business from intensely competitive to collaborative. For example, firms which get involved in electronic commerce, view their vendors and suppliers more as collaborators who have similar information systems to facilitate EDI and electronic commerce. Thus firms tend to move from a large number of suppliers to a smaller number, losing some of their bargaining power in terms of price of raw material *etc.,* to gain greater standardization of information technology. This standardization across an industry and increased collaboration between firms will help reduce transaction costs due to asset specificity.

Another way in which the Web can help in reducing asset specific transaction costs is by greatly facilitating formation of virtual organizations and teams, which are put together for the purpose of carrying out a very specific project. A case of such virtual teams getting involved in a major automobile project is reported in Rayport and Svikola. Ford's "global car", Contour sedan, was developed by virtual work teams formed around the world. Such an effort not only extracts the best talent and the broadest vision, but also reduces asset specificity as investment in some asset specific capital, human or otherwise, is easily shared across a firm, across industry, and between industry and research/ academic institutions.

Free and ready access to a great amount of software and code available on the Internet is another example of reduction of asset specific transaction costs. Software developed by firms, big and small, are regularly beta-tested by users over the Internet as well as large amounts of publicly available code are regularly used by programmers and developers. The quality of such "shareware" is very high, because the software is so widely distributed through the Internet, any bugs or glitches are reported and fixed right away by the user community. The improvement cycle is much faster than with most because there is a tendency to share enhancements freely.

BUSINESS

A business (also known as company, enterprise, or firm) is a legally recognized organization designed to provide goods, services, or both to consumers or tertiary business in exchange for money.

Businesses are predominant in capitalist economies, in which most businesses are privately owned and typically formed to earn profit that will increase the wealth of its owners. The owners and operators of private, for-profit businesses have as one of their main objectives *the receipt or generation of a financial return* in exchange for work and acceptance of risk. Businesses can also be formed not-for-profit or be state-owned. The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work. The term "business" has at least three usages, depending on the scope — the singular usage (above) to mean a particular company or corporation, the generalized usage to refer to a particular market sector, such as "the music business" and compound forms such as agribusiness, or the broadest meaning to include all activity by the community of suppliers of goods and services. However, the exact definition of business, like much else in the philosophy of business, is a matter of debate and complexity of meanings.

BUSINESS ECONOMY

Business economics is that part of economic theory which focuses on business enterprises and inquires into the factors contributing to the diversity of organizational structures and to the relationships of firms with labour, capital and product markets.

Business Economics is concerned with economic issue and problems related to business organization, management and strategy. Issues and problems such as the following: an explanation of why firms emerge and exist; why they expand: horizontally, vertically and spacially; the role of entrepreneurs and entrepreneurship; the significance of organizational structure; the relationship of firms with employees, the employees, the providers of capital, the customers, the government; the interactions between firms and the business environment.

AMBIGUITY IN THE USE OF TERM

The term Business Economics is used in a variety of ways. Sometimes it is used as synonymously with-Industrial Economics-Industrial Organisation-Managerial Economics-Economics for Business. Industrial Economics is the mostly closely over-lapping of these terms whilst there may be more substantial differences with Economics for Business and Managerial Economics. One view of the distinctions between these would be that Business Economics is wider in its scope than Industrial Economics in that it would be concerned not only with "Industry" but also businesses in the service sector and that it also takes seriously the insights of the "business strategy" literature.

Economics for business looks at the major principles of economics but focuses on applying these economic principles to the real world of business. Managerial economics is the application of economic methods in the managerial decision-making process.

INTERPRETATIONS OF BUSINESS ECONOMICS FROM VARIOUS UNIVERSITIES

Many universities offer courses in Business Economics and offer a range of interpretations as to the meaning of the term. The University of East London defines the subject matter of its degree as looking at the application of economic theory to business activities and organizations arguing that "In general terms, Business Economics deals with issues such as: the ways markets work; what firms do, what their motives are, how they perform; and the role of government in regulating business activity".

The programme at Harvard University uses economic methods to analyse practical aspects of business, including business administration, management, and related fields of economics.

The University of Miami defines Business Economics as involving the study of how we use our resources for the production, distribution, and consumption of goods and services. This requires business economists to analyse social institutions, banks, the stock market, the government and they look at problems connected with labour negotiations, taxes, international trade, and urban and environmental issues.

Courses at the University of Manchester interpret Business Economics to be concerned with the economic analysis of how businesses contribute to welfare of society rather than on the welfare of an individual or a business. This is done via an examination of the relationship between ownership, control and firm objectives; theories of the growth of the firm; the behavioural theory of the firm; theories of entrepreneurship; the factors that influence the structure, conduct and performance of business at the industry level.

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

ENTREPRENEUR

An enrepreneur can be regarded as a person who has the initiative skill and motivation to set up a business or enterprise of his own and who always look for high achievements. He is the catalyst for social change and works for the common good. They looks for opportunities, identifies them and seizes them mainly for economic gains. An action oriented enrepreneur is a highly calculative individual who is always willing to undertake risks in order to achieve their goals.

NEED FOR ENTREPRENEURSHIP DEVELOPMENT

Economic development essentially means a process of upward change whereby the real per capita income of a country increases over a period of time. Entrepreneurship has an important role to play in the development of a country. It is one of the most important inputs in economic development. The number and competence of entrepreneurs affect the economic growth of the country.

The economic history of the presently advanced countries like USA, Russia and japan supports the fact that economic development is the outcome for which entrepreneurship is an inevitable cause.

The crucial and significant role played by the entrepreneurs in the economic development of advanced countries has made the people of developing and under developed countries conscious of the importance of entrepreneurship for economic development. It is now a widely accepted fact that active and enthusiastic entrepreneurs can only explore the potentials of the countries availability of resources such as labour, capital and technology. The role of entrepreneurs is not identical in the various economies. Depending on the material resources, industry climate and responsiveness of the political system, it varies from economy to economy. The contribution of entrepreneurs may be more in favourable opportunity conditions than in economies with relatively less favourable opportunity conditions.

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

Entrepreneurship helps in the process of economic development in the following ways:

EMPLOYMENT GENERATION

Growing unemployment particularly educated unemployment is the problem of the nation. The available employment opportunities can cater only 5 to 10 % of the unemployed. Entrepreneurs generate employment both directly and indirectly. Directly, self employment as an entrepreneur and indirectly by starting many industrial units they offer jobs to millions. Thus entrepreneurship is the best way to fight the evil of unemployment.

NATIONAL INCOME

National Income consists of the goods and services produced in the country and imported. The goods and services produced are for consumption within the country as well as to meet the demand of exports. The domestic demand increases with increase in population and increase in standard of living. The export demand also increases to meet the needs of growing imports due to various reasons. An increasing number of entrepreneurers are required to meet this increasing demand for goods and services. Thus entrepreneurship increases the national income.

BALANCED REGIONAL DEVELOPMENT

The growth of Industry and business leads to a lot of Public benefits like transport facilities, health, education, entertainment, *etc.* When the industries are concentrated in selected cities, development gets limited to these cities. A rapid development. When the new entrepreneurers grow at a faster rate, in view of increasing competition in and around cities, they are forced to set up their enterprises in the smaller towns away from big cities. This helps in the development of backward regions.

DISPERSAL OF ECONOMIC POWER

Industrial development normally may lesd to concentration of economic powers in a few hands. This concentration of power in a few hands has its own evils in the form of monopolies. Developing a large number of entrepreneurers helps in dispersing the economic power amongst the population. Thus it helps in weakening the harmful effects of monopoly.

BETTER STANDARDS OF LIVING

Entrepreneurs play a vital role in achieving a higher rate of economic growth. Entrepreneurers are able to produce goods at lower cost and supply quality goods at lower price to the community according to their requirements. When the price of the commodies decreases the consumers get the power to buy more goods for their satisfaction. In this way they can increase the standard of living of the people.

CREATING INNOVATION

An entrepreneur is a person who always look for changes apart from combining the factors of production, he also introduces new ideas and new combination of factors. He always try to introduce newer and newer technique of production of goods and services. An entrepreneur brings economic development through innovation.

USING AIMS AND OBJECTIVES TO CREATE A BUSINESS STRATEGY

When preparing a strategy for success, a business needs to be clear about what it wants to achieve. It needs to know how it is going to turn its desires into reality in the face of intense competition. Setting clear and specific aims and objectives is vital for a business to compete. However, a business must also be aware of why it is different to others in the same market.

Setting clear and specific aims and objectives is vital for a business to compete. This case study looks at the combination of these elements and shows how Kellogg prepared a successful strategy by setting aims and objectives linked to its unique brand.

BRANDING

One of the most powerful tools that organisations use is branding. A brand is a name, design, symbol or major feature that helps to identify one or more products from a business or organisation. The reason that branding is powerful is that the moment a consumer recognises a brand, the brand itself instantly provides a lot of information to that consumer. This helps them to make quicker and better decisions about what products or services to buy.

PRODUCT POSITIONING

Managing a brand is part of a process called product positioning. The positioning of a product is a process where the various attributes and qualities of a brand are emphasised to consumers. When consumers see the brand, they distinguish the brand from other products and brands because of these attributes and qualities. Focused on Kellogg, this case study looks at how aims and objectives have been used to create a strategy which gives Kellogg a unique position in the minds of its consumers.

SOCIAL RESPONSIBILITY-USING RESOURCES MORE EFFICIENTLY

The challenge facing business and society in the 21st century is how to use resources more efficiently. Every business large or small needs to consider carefully:

1. How to reduce its use of energy
2. How to minimise waste.

The central economic problem is how to match finite resources with unlimited wants. With the demand for resources rising as the world economy grows this is becoming more of a challenge. Leading global companies like Anglo American strive to find new solutions to this problem every day.

Anglo American is one of the world's largest mining companies. Its portfolio of mining businesses spans precious metals and minerals-in which it is a global leader in platinum and diamonds, base metals (copper and nickel) and bulk commodities (iron ore, metallurgical coal and thermal coal). The company's mining operations and extensive pipeline of growth projects are located in southern Africa, South America, Australia, North America and Asia. The purpose of the organisation is set out in a mission statement.

'to be the leading global mining company-through the operational excellence of world class assets in the most attractive commodities and a resolute commitment to safe and sustainable mining.'

In 2008 there was a downturn in world economic activity. This resulted from a loss of confidence in the world financial system. The downturn led to a steep fall in commodity prices such as coal, copper and platinum. By late 2009 these prices started to rise again as demand for commodities increased.

SUSTAINABILITY

Although mining companies are affected by changes in economic activity, mining is a long-term investment business. Firms like Anglo American have to take a long term view of the business. This involves extracting commodities in a sustainable way over a long period of time. The company focuses on those commodities in which it has a favourable position. It concentrates on larger mines where extraction will be possible for many years into the future. It also looks at mining projects where costs can be kept to a minimum but where there are opportunities to expand operations.

There are several issues of sustainability facing Anglo American. Key ones are:

1. Securing energy supplies, such as electricity and resources including water, for the future
2. Managing emissions to minimise harm.

Anglo American uses large quantities of energy in its operations. It also generates the potential for energy, *e.g.*, by producing coal to generate power stations. A key aim of the company therefore is to do more with less. It must achieve maximum efficiency with minimum waste.

Anglo American believes that by operating in innovative and socially responsible ways it can do things better than its rivals. Doing things better in business is referred to as competitive advantage. Social responsibilities are those duties to all the stakeholders of a business, not just the shareholders. Embedded within social responsibility is the concept of sustainable development.

Sustainable development involves using resources so that:

- Resources are available to meet the needs of people now
- Resources can be available to future generations
- The needs of the natural environment are respected.

This case study shows how Anglo American, through its aims and objectives, is driving forward its approach to sustainable development.

FORMS OF BUSINESS FOR IRS PURPOSES

You incorporate your business in the state you conduct business in. If you live and work in Texas, for example, you would incorporate your business in Texas.

If your business conducts business throughout the United States, you need to incorporate in the state where your headquarters will be. If you have a substantial business presence in another state, you may need to let that state know and file state tax returns or sales tax returns based on your business earnings in that other state. Businesses with substantial nationwide activity sometimes choose to be incorporated in Delaware or Nevada because of the business-friendly laws in those states. Even if you incorporate in Delaware or Nevada, you will still need to register your business in those states where you have an actual business location.

The various forms of organization are established by state law. There are a wide variety of business organizations recognized by the states. For example, a popular form of organization is the Limited Liability Company (LLC). The LLC is a state designation. At the federal level, an LLC is taxed as a partnership. If the LLC so chooses, it can be taxed as a corporation at the federal level.

While there are a variety of designations at the state level, for federal tax purposes there are only 6 forms of business organizations:

- Sole Proprietor (1040 Schedule C),
- Corporation (1120),
- Partnership (1065),
- S-Corporation (1120S),
- Trust (1041), and
- Non-profit organization (990).

Sole proprietors are unincorporated businesses. They are also called independent contractors, consultants, or freelancers. There are no forms you need to fill out to start this type of business. The only thing you need to do is report your business income and expenses on your Form 1040 Schedule C. This is the easiest form of business to set up, and the easiest to dissolve. (An LLC with only a single shareholder, a so-called single-member LLC, is taxed as a sole proprietor on a Schedule C.)

Corporations are incorporated businesses. Every form of business besides the sole proprietor is considered a separate entity, and this often provides a measure of legal and financial protection for the shareholders. The shareholders of corporations have limited liability protection, and corporations have full discretion over the amount of profits they can distribute or retain. Corporations are presumed to be for-profit entities, and as such they can have an unlimited number of years with losses. Corporations must have at least one shareholder.

Partnerships are unincorporated businesses. Like corporations, partnerships are separate entities from the shareholders. Unlike corporations, partnerships must have at lease one General Partner who assumes unlimited liability for the business. Partnerships must have at least two shareholders. Partnerships distribute all profits and losses to their shareholders without regard for any profits retained by the business for cash flow purposes. (LLCs are taxed as partnerships, unless they choose to be taxed as corporations.)

S-Corporations have features similar to a partnership. An S-corporation must have at least one shareholder, and cannot have more than 100 shareholders. If any shareholder provides services to the business, the S-Corp must pay that shareholder a reasonable salary. This salary is a separate payment from distributions of profits or losses.

Trusts are usually formed upon the death of an individual and are designed to provide continuity of the investments and business activities of the deceased individual. Nonprofits are corporations formed for a charitable, civic, or artistic purpose. Nonprofits are generally exempt from federal and state taxation on their income, and so they are often called "exempt organizations." Nonprofits have substantial responsibilities for reporting their activities, income, and assets to ensure that they are in compliance with federal and state laws governing charities. For additional information on starting, managing, and developing a not-for-profit organization.

As mentioned above, sole proprietors, S-corporations, and partnerships are taxed at the shareholder level. Corporations, however, are taxed at the corporate level.

Some of the decision factors include how profitable your business is, and how much of those profits you want distributed to you versus re-investing the profits back into the business.

Generally speaking, profitable businesses should be C-corporations (regular corporations that file on Form 1120). The lowest tax bracket for a C-Corp is the 15% bracket that goes from zero to $50,000. It may be possible to manage your small business finances so that your corporation will never pay more than 15% in taxes.

For other forms of business (partnership, S-Corp, LLC partnerships, Schedule C), tax is not levied at the corporate level, instead all profits are fully distributed to the shareholders, and reported & taxed on each shareholder's 1040. On a profitable business, this will increase each shareholder's taxable income, and possibly move them to a higher tax bracket.

If the business is losing money, losses are retained by a C-Corporation and offset next year's income. In other forms of business, the loss is passed-through to the shareholder, where the loss reduces the shareholder's total income. Losses on a pass-through entity provide a significant tax break in the year the loss occurs. Losses in a regular C-Corporation provide a significant tax break in the future by reducing future income. Generally speaking, business owners prefer to operate an unprofitable business as an S-Corp, partnership, LLC, or sole proprietor, and prefer to operate profitable businesses as a regular C-Corp, LLC, or partnership.

S-Corporations can be owned by a single person, and so the IRS expects S-Corps to pay a reasonable salary to the managing shareholder in addition to a profit distribution. Naturally, I am inclined to pay myself more as profits and less as salary in order to minimize the payroll taxes (Social Security and Medicare taxes) that are due on salary. The IRS is aware of this situation and is on the lookout for it. The IRS expects S-Corps to pay reasonable compensation for the services of the officers. "Reasonable compensation" can be interpreted in different ways. But it means what you would expect to be paid if you were hired by someone else. The fastest way to an IRS audit as an S-Corp is to report zero officer compensation.

Partnerships and Limited Liability Companies are taxed at the shareholder level, much like an S-Corp. The IRS, however, has not demanded that partnerships pay a reasonable salary to managing shareholders. General partners in a partnership are considered self-employed, and their share of profits are subject to the self-employment tax. Limited partners, however, pay self-employment tax only on "guaranteed payments" for services rendered to the partnership. Every partnership must have at least one General Partner. LLCs, however, can be composed of shareholders who designate all management responsibility to salaried employees. Thus on an LLC, shareholders would not be subject to self-employment tax unless they receive a "guaranteed payment" for services rendered to the LLC.

Schedule C sole proprietors are taxed on their 1040. The entire business profit is considered self-employment income, and is reported on a Schedule C. As a Schedule C business, you do not pay yourself a salary. Only salaries and payroll taxes paid for other employees are allowable business expenses.

C-Corporations are taxed separately from their shareholders. Any salary paid to yourself is deductible as a business expense to the C-Corporation. Also, if the C-Corp distributes dividends to the shareholders, the dividends are taxed at a special "qualified dividends" tax rate of 15%.

Dividends from a corporation are taxed twice, once at the corporate level and again at the shareholder level. Since the corporation has already paid tax on its earnings, this distribution qualifies as a "qualified dividend" at the lower 15% tax rate. On my 1040, I pay only 15% tax on these dividends. C-Corporations are the *only* business that can split profits between retained earnings and dividends.

S-Corps and Partnerships must report all profits as a distribution, even if the business has retained some of the cash for next year's operating expenses. The ability to choose when and how much you are taxed by controlling when and how much money is distributed is a crucial tax advantage for C-Corporations. This means that there is more flexibility with a C-Corporation to pick your tax rate than there is with the other options. However, S-Corps, partnerships, and Schedule C businesses are easier to set up and operate.

Business considerations play a crucial role in deciding which form of organization is best for your enterprise. Balance the tax benefits of incorporating with various business and legal needs.

ABILITY TO RAISE CAPITAL

If your new venture has a pressing need to raise capital from outside investors, forming a C-corporation is the easiest way to satisfy the demands of investors. C-Corporations can have an unlimited number of shareholders, can have different classes of stock, and do not need to be dissolved if a shareholder leaves. Partnerships, by contrast, must be dissolved whenever more than 50% of the partnership interest changes hands. Raising capital in a partnership is consequently more involved. S-Corporations are limited to 100 shareholders. Schedule C sole proprietors are limited to only one owner, so sole proprietors have no ability to raise capital from outside investors.

ABILITY TO TRANSFER OWNERSHIP

At some point in time you may need to transfer ownership of a business to someone else. You could be selling your business, transferring some of the ownership to your children, or bringing in a new business partner. With C-corporations and S-corporations you can add new shareholders and transfer shares with relative ease.

Transferring a significant portion of a partnership, by contrast, may require that the partnership terminate and a new partnership be formed. Finally, sole proprietors cannot transfer ownership of their business. If they want out, they can sell all the assets and liabilities of the business to someone else, but the buyer would have to form his own business.

SEPARATION OF OWNERSHIP & MANAGEMENT

In C-corporations, Limited Liability Companies, and Limited Partnerships, shareholders are separate from management. Shareholders do not take on any management responsibilities, and managers do not shoulder any ownership responsibilities.

This separation is crucial for keeping liabilities from bad management decisions from depleting the shareholder's personal assets.

By contrast, general partners in a partnership, shareholders in S-corporations, and sole proprietors are not separate from management. They actively engage in management decisions and daily business activities.

LIMITED LIABILITY PROTECTION

The major legal consideration in choosing a form of business is limited liability protection. Limited liability means the owners of the business are only liable for the capital they have invested. Let's say my company is sued for $1 million, but as a shareholder I have invested only $10,000. With limited liability, the most I can lose is the $10,000 I have invested. My personal assets (house, car, bank account) cannot be touched. Limited liability is available for C-corporations, S-corporations, Limited Liability Companies, and limited partners in a Limited Partnership or Limited Liability Partnership.

General partners in a partnership and sole proprietors, however, have unlimited liability. Creditors and lawsuits can go after the owner's personal assets (real estate, bank accounts, *etc.*). As such, partnership and sole proprietor are good only for businesses with small risk for liability exposure. Good examples would be a partnership formed to invest in the stock market, or freelance writers and other artists with low risk of being sued. If you are at risk of being sued for accidents, bad decisions, or property damage, you should consider a form of organization that offers limited liability protection.

EASE OF INCORPORATION

Setting up a sole proprietor business is the easiest thing to do. You actually don't need to do anything until you file your first business tax return on your Schedule C. This is also the easiest business to shut down – you just stop being in business. All the other forms of organization, however, require filing various papers with your state government and with the Internal Revenue Service. To incorporate your business, you will need to write up your Articles of Incorporation, By-Laws, file various documents with your state government, obtain an Employer Identification Number from the IRS, and once approved, submit these documents to your bank to set up a business bank account.

You can incorporate a business yourself, or you can hire a professional incorporation service. Fees for a professional firm can run from $300 to over $1,000. You may also need the services of an attorney. State governments charge filing fees for processing your incorporation documents. Fees vary by state and can vary by the type of organization you want to form. You will need to file a Doing Business As form with your county government to register your business name, and this requires a filing fee and newspaper costs for announcing your business name to the public. These fees can quickly add up, so have solid reasons for incorporating, and understand how your form of organization will achieve your business, legal, and tax needs.

TYPES OF ORGANIZATIONAL STRUCTURE IN THE BUSINESS WORLD

There are many different types of organizational structure in the business world, but they all fit into three basic categories. The categories are pre-bureaucratic, bureaucratic and post-bureaucratic. Pre-bureaucratic structures are simple. They are sometimes referred to as flat or horizontal organizations. They work well for entrepreneurs and small businesses.

They are referred to as horizontal, because there are no branches. Employees report to a single owner or manager. There are no specialized tasks among the employees. Everyone takes part in all of the business activities. There are no middle managers. According to business management theory, there comes a time when flat organizations are no longer effective. Sticking with the structure can impact productivity, efficiency and customer service. At this point, small companies that wish to continue to grow may implement a more bureaucratic system. However, there has been some return to the flatter organizational structures as companies "downsize".

Types of bureaucratic organizations include production, procedural, craft and coping organizations. Those four categories are used primarily to describe governmental bureaucracies. They have to do with whether or not the output and outcome of the agencies or employees are observable and measurable.

In the business world, we usually look at functional and divisional organizational structures. A functional structure is one in which the employees are divided according to the tasks they perform.

There might be an engineering department, an accounting department and a product development department, among others. The disadvantages may be numerous.

The employees in a specific department typically report to a supervisor or manager. Their supervisor might report to another manager or directly to the CEO if it is a corporate structure. There may be little communication between the different departments, which can cause employee dissatisfaction. The advantages of the functional structure have to do with efficiency. The engineers don't need to know anything about accounting. The employees can focus on their areas of expertise.

In the divisional or product structure, the employees are divided according to the products they are involved with or the location of their branches. Within each division, there might be a sales staff, an accounting staff and a management staff. Each division head would report to main or central office. Divisional and functional organizational structures are often necessary for large world-wide corporations. Although as technology advances, post-bureaucratic structures have often replaced them and may continue to do so.

The matrix is one of the post-bureaucratic business models. Employees are grouped by both function and products. For example, if three products were produced, there would be three different sales, accounting and customer service departments, as well as many others. The virtual organization is one of the newest types of organizational structure. It relies on the internet to allow for global operations with a minimum of employees. It may be the future for all businesses.

FORMAL ORGANIZATIONAL STRUCTURE

Formal Organizational Structure. For the most part, as long as there are at least two people running a business there is some sort of hierarchy which determines who does what. When you have a business with more than two people this hierarchy often becomes a formal organization structure which specifically details the roles and responsibilities of all employees.

Without some sort of organization a business would be in total chaos because no one would know who is in charge of what or who to send inquiries to or anything-it'd be like having ten cooks to make a peanut butter and jelly sandwich all vying to be the head chef. No one would ever get their sandwich in this case. For the very large businesses there is probably more of a corporate organizational structure in place. This approach is also known as the functional organization structure and has been used throughout the centuries since man first established any sort of hierarchy dictating that the men would hunt and the women would gather.

Today's formal organizational structure is most commonly based on an approach which most closely resembles ruling dynasties. This means there's usually one person or maybe one group at the very top of the corporation that is responsible for overseeing all aspects of the company's business dealings.

There would be multiple layers of supervisors, department heads or directors, managers, and others between this top role and the actual workers. This is kind of like having the king or queen ruling the country and the different levels of aristocracy in between the ruler and the everyday citizen.

Just like most countries that operated or operate with a king or queen, the corporate organizational structure is based on some sort of formal bylaws, charts, and other documents which delineate exactly what each position entails, who they report to, who reports to them, and the methods for handling the day-to-day operations of the organization. There is often an element of standardization in this type of organization so that each branch of the company knows how to communicate with each other and the upper levels of management. Most of the time the formal organizational structure provides a degree of comfort and security due to the fact that most procedures come with a specified set of instructions ("a" leads to "b" which leads to "c"). This makes many employees feel very safe and secure because they know exactly what their chain of command is should any issues arise for which they need further assistance. This type of structure also has in place very clear guidelines for punishment and recognition in order to maintain a positive culture.

One of the pitfalls of the formal organizational structure is that it can result in a slower decision making process because there are so many groups who have to be involved and consulted (think of how long it takes for most bills to become a law because it has to be approved by both the House of Representatives and the Senate before the President even gets to have a say).

However, some of this bureaucracy is necessary when dealing with a very large corporation to ensure the fair treatment of all employees.

FUNCTIONAL ORGANIZATION STRUCTURE

Experts agree that the functional organization structure is probably the most widely-used and has probably been around the longest. In fact, it's theorized that the ancient Egyptians helped establish this organization for the building of the pyramids. This is because they had to establish a hierarchy of who did what to build these incredible artifacts.

A functional organizational structure is simply one in which there is a fairly strict hierarchy of responsibility. It is often depicted as a pyramid in graphic organizers with the workers/staff members at the bottom of the pyramid and comprising the majority of the company's employees. Next would come store or branch managers, then supervisors, through however many layers to the president/CEO of the company.

This type of organizational structure tends to work best for companies who offer a solitary product or service. This includes factories and many of the larger retail operations. With the functional organization structure individual jobs are a focal point with similar jobs being grouped or clustered together to form a department. There may be a sales department, a human resources department, an accounting department, and so on depending on how large the organization actually is. Most of the departments will be overseen by a department head or director.

Some of the benefits to utilizing the functional organizational structure include having a chain of command which is fairly stable and linear. Each level of employee generally knows who they would report any issues to and how to elevate any grievance to the next level.

The actual people usually receive a good deal of support and nurturing to become highly qualified employees of the company. There is often a relatively standardized method for training new employees and clear leadership and guidance along the way to ensure the employees' needs are being met. Additionally, the functional organization structure allows for professional similarities among the groups of each department so that should issues arise, there is a built in support system. This also means that more than one person should be able to fulfill the duties of someone else in the same department. This provides the company itself with a broad base of expertise.

A final benefit is that the functional organization structure provides a fairly simple, well-laid out path for advancement of its employees. Each employee has some idea of how they can advance in their job – such as earning more responsibilities, titles, or even changing departments altogether. Depending on the actual size of the organization there can be a few drawbacks to the functional organizational structure. Communication among departments can be slow and cumbersome because there are so many people to notify and need to participate in discussions. This can also be a deterrent for solving problems because there can be numerous departments that need to be consulted prior to making actual decisions.

Finally, there are times when a specific department can lose track of the bigger picture because its focus has become so narrow as to only include the needs of that particular department. However, most of these obstacles can be overcome through strong leadership at the highest levels of the business. Because the functional organization structure has been around for so long it is often the most comfortable structure and is certainly the most familiar to the vast majority of the population.

MATRIX ORGANIZATION STRUCTURE

Matrix Organization Structure. All companies, regardless of the products or services offered, have some form of organization in order to be able to function. The type of organization utilized often depends on the type of company and what or how many products or services are being offered to its customers. The most common organizational structure is the functional model with the president in charge and numerous other supervisors reporting directly to him/her with levels of employees under them.

The matrix organizational structure is one of the newer methods for running a company and is based more on teams than on individual departments. This configuration combines the functional organization with more of a product organization. A product organization is based directly on the manufacturing of a specific product by different groups within the company. In the matrix organizational structure the upper echelon are the top managers-usually consisting of a president/ CEO, vice president, and any general managers. Next will be an arrangement of units which may be determined by geographic locations (*i.e.*, US branch, European branch, or other branch). Within each of these branches there will be a project manager who reports directly to someone in the upper management group.

The branches may have their own human resources, accounting, and sales departments. However, with the matrix organization structure these departments do not work separately from each other as they do in the functional approach. Instead, they work as teams across the departments to develop the product(s) and service(s) offered by the company overall. It helps to think of this arrangement in terms of a company which produces two primary products: apples and oranges. This means there would be an apples sales department, an apple customer service department, and an apple accounting department. There would also be the same configuration for oranges (*i.e.*, an orange sales department, an orange customer service department, and an orange accounting department). Members of the apple departments would work together to promote and ensure the quality of the apples while the members of the orange departments would work together to do the same for the oranges. None of them would work in isolation; instead there'd be more of a lattice overlapping the various departments for a common goal.

Each team would report to a functional manager on their progress. The functional manager would then report up to the project manager who, like we've already mentioned, reports to the vice president and/or general manager. Some of the benefits of the matrix organizational structure include the fact that having people across department boundaries working together for a common goal means reduced costs in terms of having to bring in outside help. There are usually fewer issues that arise among various departments because they are all working in conjunction with one another.

Additionally, because the teams bring different talents and skills to the group there is more sense of shared authority and responsibility. Each member is expected to carry out their tasks and the group works together as a whole to ensure success. This also means that the stress is disbursed among the team members so that no one individual has to carry the weight of responsibility alone. As with any business structure, there is no one right organization. Whether or not the matrix organization structure would be right for your business is going to be dictated by the products, services, and size of your operation.

BUSINESS ON THE WEB: STRATEGIES AND ECONOMICS

The advent of the Internet as a viable business tool is likely to have the same impact on businesses and their information systems as the spread of personal computers during the early 1980s. The literature falls short of discussion of two important aspects of this technology: strategies and economics of doing business on the Internet. Amid the myriad of practices, lessons, and anecdotes, there is a clear need for developing an understanding of the commonalty as well as the uniqueness of Web-based business with respect to the traditional general business. In particular, it is important to know whether or not the strategic planning methods of general business still apply to this new branch of business, and if so, how?

Striving towards answering this question, we mainly delve into two classic representative paradigms, viz., value chain analysis and transaction cost economics, and our previous research on Strategic Information Systems and the Value of Information to come up with a strategy formulating framework for doing business on the Internet. We first analyze and apply these paradigms to Internet-based business in the next two sections and then present the planning framework in Section 6 with examples.

From Strategic Thinking to Strategic Planning

Even before the businesses realized the potentials of the Web to attain competitive advantage, they realized the strategic importance of information systems and planning for such systems. Strategic Information Systems Planning (SISP), is the analysis of a corporation's information and processes using business information models together with the evaluation of risk, current needs and requirements. The result is an action plan showing the desired course of events necessary to align information use and needs with the strategic direction of the company. Some characteristics of strategic IS planning which help in providing a framework for doing business on the Web are:

- Main task: strategic/competitive advantage, linkage to business strategy.
- Key objective: pursuing opportunities, integrating IS and business strategies
- Direction from: executives/senior management and users, coalition of users/management and information systems.

- Main approach: entrepreneurial (user innovation), multiple (bottom-up development, top down analysis, *etc.*) at the same time.

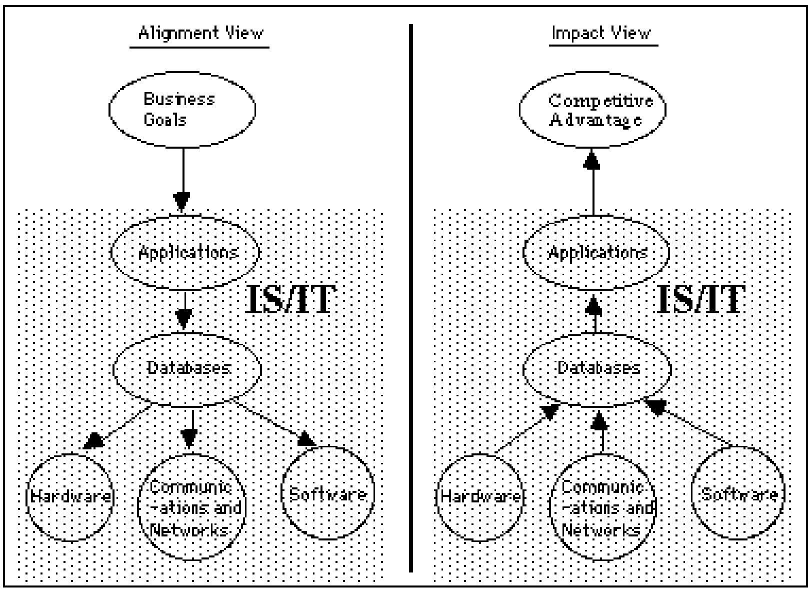
Strategic Information Systems Planning, with or without the Web, is not an easy task because such a process is deeply embedded in business processes. These systems need to cater to the strategic demands of organizations, *i.e.*, serving the business goals and creating competitive advantage as well as meeting their data processing and MIS needs.

The key point here is that organizations have to plan for information systems not merely as tools for cutting costs but as means to adding value. The major impact of information technology is in re-defining, re-engineering businesses rather than in data processing/MIS roles. Web-based business opportunities open a new set of possibilities in the use of Information Technology in an organization.

The technology transforms the business, even becoming business in some cases. As Keen has morbidly but realistically pointed out that organizations not planning for strategic information systems may fail to spot the business implications of competitors' use of information technology until it is too late for them to react. In situations like this, when information technology changes the basics of competition in an industry, 50% of the companies in that industry disappear within ten years. This observation of Keen's assumes more sinister proportions for Web-based businesses because the present technology of putting a business on the Web is well within the technical and financial reach of even very small businesses.

Two Frameworks for Strategic Systems Planning

Vitale, et al. classify SISP methodologies into two categories: impact and alignment. Impact methodologies help create and justify new uses of IT, while the methodologies in the "alignment" category align IS objectives with organizational goals.



Which perspective of planning for Internet connection for an organization and doing business over the Web will be used will depend on the proposed use for the Internet/WWW in the business. If the Internet is used merely for e-mail/ Usenet or even intra-firm connectivity, the alignment perspective will apply. However, if the Web is used as an alternative medium for doing business — reaching out to customers, suppliers and vendors, creating virtual organizations and teams, transacting actual commerce including financial transactions, then the impact view will prevail. And this is what doing business on the Web is mostly about — an electronic alternative to the real marketplace, which is not only viable, but is also far more efficient, cuts across geographical boundaries and time zones, is growing at an unprecedented rate, has low entry barriers, is innovating fast, and to confound matters further, relies on different business paradigms. This is what the media attention is all about; the Boston Globe reported over three thousand articles in the press about Internet in nine months in 1995 and this is where the emerging visions of Electronic Data Interchange (EDI), Virtual Corporations (VC), and the National Information Infrastructure (NII) (Information Superhighway), *etc.*, have their roots.

Value Chain — A Framework for Internet Strategy Formulation

The value chain analysis is a powerful tool used by strategists to diagnose and enhance competitive advantage. Value chain analysis allows the managers to separate the underlying activitiesa firm performs in designing, producing, marketing and distributing its product or service. It is these activities from which competitive advantage ultimately stems. By showing how all the firms activities can be examined in this integrated way, Porter provided an original, practical perspective of competitive advantage.

Value Chain Analysis provides an appropriate framework for planning Web based businesses because it deals with the value added (and not merely cost saving) aspect of a system and thus helps in assessing the impact of an information technology on the business. The concept of value chain is to treat every firm as a collection of activities that are performed to design, produce, market, deliver, and support its product with information technology being one major support activity for the value chain. Information systems technology is particularly pervasive in the value chain, since every value activity creates and uses information and therefore can substantially affect competitive advantage of firms. A firm that can discover a better technology for performing an activity than its competitors gains competitive advantage.

Thus, essentially, value chain analysis is a form of business activity analysis which decomposes an enterprise into its parts and helps in adopting a technology which increase the overall profit available to a firm. It also helps in identifying the potential for mutual business advantages of component businesses, in the same or related industries which is available from information interchange. Value chain analysis concentrates on value-adding business activities and is independent of organizational structure.

Internet positively affects all parts of the value chain of a firm. In respect of Primary Activities, namely, Inbound logistics, Operations, Outbound logistics, Marketing and sales and service noticeable impact of the Internet is as follows:

- Inbound logistics — fast, inexpensive, reliable connection to suppliers.
- Operations — Intrafirm connectivity— Lotus Notes like connectivity through the Web — customer participation, quicker response to changing needs.
- Outbound logistics — fast, inexpensive, reliable connection to suppliers.
- Marketing and sales — greatest value added in this area at present. Cost of advertising a product on the Web is just a fraction of the cost of a newspaper advertising. Similar cost comparisons will hold for the cost of advertising the same product over TV/radio versus the Internet.
- Service — high impact, similar to that on marketing and sales.

The Internet also affects the Support activities like Corporate structure, Human resources, Technological development and Purchasing positively. Some examples of such positive impact of the Internet are:

- Corporate structure — flatter organizations, disappearing middle layer, whole organization becomes externally oriented.
- Human resources — Internet as a vast training and recruiting tool kit.
- Technological development — faster, richer interaction with the rest of the world, sharing of information, software. Collaborative advantage.
- Purchasing — similar advantages as in marketing.

Besides the above visible effects of the Internet on the value-adding activities of a firm, the Internet offers many other significant benefits, namely:

- Customization of information as per user needs.
- Interactivity
  - — Helps the seller to understand the consumer's needs fully.
  - — Product promotion and transaction processing is possible in one step. Because of this capability of the Web, it can be considered to perform the entire marketing function by itself.
- Unusual feed back, not only what consumers buy, but also what they don't buy, might buy.
- Timeliness of information put out by a firm.
- Information updated frequently.
- Market niche coverage — can be made very specific by targeting product promotion towards very specific target groups.

However, associated with the apparent low cost of marketing a product on the Web is the issue that a big chunk of the marketing cost is passed on to the consumer (it is s/he who buys the computer, modem, Internet connection, *etc.*).

It is likely that as the technology matures and becomes widespread, a large number of consumers will have Internet connectivity through moderately priced, perhaps dedicated, Internet computers. When that happens, the cost function will be similar to that applied to TV and marketing channels on TV, where consumers invest in technology and services for their entertainment/educational value of the technology as well as the convenience of shopping from home.

Thus, a detailed value chain analysis as outlined above will help a firm in formulating its Web-based business strategy in many important ways:

1. it will provide a robust and intuitive framework for assessing the impact of Internet in a firm.
2. lay out innovative ways of forward and backward chaining to derive maximum value from using the Internet.
3. with sufficient insight gained into the inter and intra-firm information interchange, a firm can also devise ways to re-engineer its business.
4. by studying the customization and interactivity potentials of the Web, firms can attempt to implement all the emerging visions of just-in-time, total quality management, mass customization, involving customers in the design of products and services, quicker turn around time in responding to changing customer demands, *etc.* However, firms doing the above analysis need to keep in mind that a number of the above benefits, as in case of most new technology investments, are qualitative and cannot be measured with the precision of traditional accounting systems. That, however, is a limitation of accounting systems and not of the technology.
5. give better insight into the augmentation of the value chain whereby some information flows themselves be marketed as products. Such crystallization and marketing of *information products* is greatly facilitated by interactive connectivity achieved through the Internet.

6

Evolution of Global Marketing

Whether an organisation markets its goods and services domestically or internationally, the definition of marketing still applies. However, the scope of marketing is broadened when the organisation decides to sell across international boundaries, this being primarily due to the numerous other dimensions which the organisation has to account for. For example, the organisation's language of business may be "English", but it may have to do business in the "French language". This not only requires a translation facility, but the French cultural conditions have to be accounted for as well. Doing business "the French way" may be different from doing it "the English way". This is particularly true when doing business with the Japanese.

The long held tenants of marketing are "customer value", "competitive advantage" and "focus". This means that organisations have to study the market, develop products or services that satisfy customer needs and wants, develop the "correct" marketing mix and satisfy its own objectives as well as giving customer satisfaction on a continuing basis. However, it became clear in the 1980s that this definition of marketing was too narrow. Preoccupation with the tactical workings of the marketing mix led to neglect of long term product development, so "Strategic Marketing" was born. The focus was shifted from knowing everything about the customer, to knowing the customer in a context which includes the competition, government policy and regulations, and the broader economic, social and political macro forces that shape the evolution of markets. In global marketing terms this means forging alliances (relationships) or developing networks, working closely with home country government officials and industry competitors to gain access to a target market. Also the marketing objective has changed from one of satisfying organisational objectives to one of "stakeholder" benefits - including employees, society, government and so on. Profit is still essential but not an end in itself.

Strategic marketing according to Wensley has been defined as:

"Initiating, negotiating and managing acceptable exchange relationships with key interest groups or constituencies, in the pursuit of sustainable competitive advantage within specific markets, on the basis of long run consumer, channel and other stakeholder franchise".

Whether one takes the definition of "marketing" or "strategic marketing", "marketing" must still be regarded as both a philosophy and a set of functional activities. As a philosophy embracing customer value (or satisfaction), planning and organising activities to meet individual and organisational objectives, marketing must be internalised by all members of an organisation, because without satisfied customers the organisation will eventually die. As a set of operational activities, marketing embraces selling, advertising, transporting, market research and product development activities to name but a few. It is important to note that marketing is not just a philosophy or one or some of the operational activities. It is both. In planning for marketing, the organisation has to basically decide what it is going to sell, to which target market and with what marketing mix (product, place, promotion, price and people). Although these tenents of marketing planning must apply anywhere, when marketing across national boundaries, the difference between domestic and international marketing lies almost entirely in the differences in national environments within which the global programme is conducted and the differences in the organisation and programmes of a firm operating simultaneously in different national markets.

It is recognised that in the "postmodern" era of marketing, even the assumptions and long standing tenents of marketing like the concepts of "consumer needs", "consumer sovereignty", "target markets" and "product/market processes" are being challenged. The emphasis is towards the emergence of the "customising consumer", that is, the customer who takes elements of the market offerings and moulds a customised consumption experience out of these. Even further, post modernisim, posts that the consumer who is the consumed, the ultimate marketable image, is also becoming liberated from the sole role of a consumer and is becoming a producer.

This reveals itself in the desire for the consumer to become part of the marketing process and to experience immersion into "thematic settings" rather than merely to encounter products.

Acceptance of postmodern marketing affects discussions of products, pricing, advertising, distribution and planning. However, given the fact that this textbook is primarily written with developing economies in mind, where the environmental conditions, consumer sophistication and systems are not such that allow a quantum leap to postmodernism, it is intended to mention the concept in passing. Further discussion on the topic is available in the accompanying list of readings.

When organisations develop into global marketing organisations, they usually evolve into this from a relatively small export base. Some firms never get any further than the exporting stage. Marketing overseas can, therefore, be anywhere on a continuum of "foreign" to "global". It is well to note at this stage that the words "international", "multinational" or "global" are now rather outdated descriptions. In fact "global" has replaced the other terms to all intents and purposes. "Foreign" marketing means marketing in an environment different from the home base, it's basic form being "exporting". Over time, this may evolve into an operating market rather than a foreign market. In "global marketing" the modus operandi is very different. Organisations begin to develop and run operations in the targeted country or countries outside of the domestic one. The characteristics of companies at different stages in the process of evolving from domestic to global enterprises are given below:

1. *Stage one:* domestic in focus, with all activity concentrated in the home market. Whilst many organisations can survive like this, for example raw milk marketing, solely domestically oriented organisations are probably doomed to long term failure.
2. *Stage two:* home focus, but with exports. Probably believes only in home values, but creates an export division. Usually ripe for the taking by stage four organisations.
3. *Stage three:* stage two organisations which realise that they must adapt their marketing mixes to overseas operations. The focus switches to multinational and adaption becomes paramount.
4. *Stage four:* global organisations which create value by extending products and programmes and focus on serving emerging global markets (geocentric). This involves recognising that markets around the world consist of similarities and differences and that it is possible to develop a global strategy based on similarities to obtain scale economies, but also recognises and responds to cost effective differences. Its strategies are a combination of extension, adaptation and creation. It is unpredictable in behaviour and always alert to opportunities.

There is no time limit on the evolution process. In some industries, like horticulture, the process can be very quick.

FACTORS LED TO INTERNATIONALISATION

There have been many underlying forces, concepts and theories which have emerged as giving political explanation to the development of international trade. Remarkably, despite the trend to world interdependency, some countries have been less involved than others. The USA, for example, has a remarkably poor export record. About 2000 US companies only account for more than 70% of US manufacturer's exports. This has been mainly due to its huge statewide domestic market, which is almost tantamount to "international trade", for example, Californian fruit being sold three thousand kilometres away in New

Jersey. Japan has risen fast to dominate the export rankings, with countries of Africa struggling to make a significant mark, mainly because of their emphasis on exporting primary products. This section will briefly examine the forces which have been instrumental in the development of world trade.

THEORETICAL APPROACHES

These include the theory of comparative advantage described in the book *Wealth of Nations* (Adam Smith) and David Ricardo), the product trade cycle (Raymond Vernon) and *The Business Orientation* (Howard Perlmutter).

THE THEORY OF COMPARATIVE ADVANTAGE

The theory can be relatively complex and difficult to understand but stated simply this theory is a demonstration (under assumptions) that a country can gain from trade even if it has an absolute disadvantage in the production of all goods, or it can gain from trade even if it has an absolute advantage in the production of all goods. Even though a country has an absolute production advantage it may be better to concentrate on its comparative advantage. To calculate the comparative advantage one has to compare the production ratios, and make the assumption that the one country totally specialises in one product. To maximise the wellbeing of both individuals and countries, countries are better off specialising in their area of competitive advantage and then trading and exchanging with others in the market place.

THE PRODUCT TRADE CYCLE

The model describes the relationship between the product life cycle, trade and investment.

The international product trade cycle model suggests that many products go through a cycle during which high-income, mass consumption countries which are initial exporters, lose their export markets and finally become importers of the product. At the same time other countries, particularly less developed but not exclusively so, shift from being importers to exporters.

From a high income country point of view phase 1 involves exporting, based on domestic product strength and surplus-to phase 2, when foreign production begins, to phase 3 when production in the foreign country becomes competitive, to phase 4 when import competition begins. The assumption behind this cycle is that new products are firstly launched in high income markets because a) there is most potential and b) the product can be tested best domestically near its source of production.

Thus new products generally emanate from high income countries and, over time, orders begin to be solicited from lower income countries and so a thriving export market develops. High income country entrepreneurs quickly realise that the markets to which they are selling often have lower production costs and so production is initiated abroad for the new products, so starts the second stage.

In the second stage of the cycle, foreign and high income country production begins to supply the same export market. As foreign producers begin to expand and gain more experience, their competition displaces the high income export production source. At this point high income countries often decide to invest in foreign countries to protect their share. As foreign producers expand, their growing economies of scale make them a competitive source for third country markets where they compete with high income exporters. The final phase of the cycle occurs when the foreign producer achieves such a scale and experience that it starts exporting to the original high income producer at a production cost lower than its original high income producer at a production cost lower than its original high income supplier. High income producers, once enjoying a monopoly in their own market, now face competition at home.

The cycle continues as the production capability in the product extends from other advanced countries to less developed countries at home, then in international trade, and finally, in other advanced countries home markets.

Whilst the underlying assumption behind the International Product Trade Cycle is that the cycle begins with the export of new product ideas from high income countries to low income importers, then low income countries begin production of the product, *etc.*, things do not always turn out as the cycle suggests. Sometimes a high or even low income exporter may put a product into a high/ low income country which is simply unable to respond. In this case, the Trade Cycle ceases to be the underpinning concept. This may be due to a number of factors like lack of access to capital to build the facilities to respond to the import, lack of skills or that the costs of local production cannot get down to the level of costs of the imported product. In this case, product substitution between the exporter and importer may also take place.

ORIENTATION OF MANAGEMENT

Perlmutter identified distinctive "orientations" of management of international organisations. His "EPRG" scheme identified four types of attitudes or orientations associated with successive stages in the evolution of international operations.

1. *Ethnocentrism*—home country orientation—exporting surplus.
2. *Polycentrism*—host country orientation—subsidiary operation.
3. *Regiocentrism*—regional orientation—world market strategies.
4. *Geocentrism*—world orientation—world market strategies.

The latter two are based on similarities and differences in markets, capitalising on similarities to obtain cost benefits, but recognising differences.

MARKET FORCES AND DEVELOPMENT

Over the last few decades internationalism has grown because of a number of market factors which have been driving development forward, over and above those factors which have been attempting to restrain it. These include market and marketing related variables.

Many global opportunities have arisen because of the clustering of market opportunities worldwide. Organisations have found that similar basic segments exist worldwide and, therefore, can be met with a global orientation. Cotton, as an ingredient in shirtings, suitings, and curtain material can be globally marketed as natural and fashionable. One can see in the streets of New York, London, Kuala Lumpar or Harare, youth with the same style and brand of basketball shirts or American Football shorts. Coca Cola can be universally advertised as "Adds Life" or appeal to a basic instinct " You can't beat the Feeling" or "Come alive" as with the case of Pepsi. One can question "what feeling?", but that is not the point. The more culturally unbounded the product is, the more a global clustering can take place and the more a standardised approach can be made in the design of marketing programmes.

This standardised approach can be aided and abetted with technology. Technology has been one of the single most powerful driving forces to internationalism. Rarely is technology culturally bound. A new pesticide is available almost globally to any agricultural organisation as long as it has the means to buy it. Computers in agriculture and other applications are used universally with IBM and Macintosh becoming household names. The need to recoup large costs of research and development in new products may force organisations to look at global markets to recoup their investment. This is certainly true of many veterinary products. Global volumes allow continuing investment in R & D, thus helping firms to improve quality. Farm machinery, for example, requires volume to generate profits for the development of new products.

Communications and transport are shrinking the global market place. Value added manufacturers like Cadbury, Nestlè, Kelloggs, Beyer, Norsk Hydro, Massey Ferguson and ICI find themselves "under pressure" from the market place and distributors alike to position their brands globally. In many cases this may mean an adaption in advertising appeals or messages as well as packaging and instructions. Nestle will not be in a hurry to repeat its disastrous experience of the "Infant formula" saga, whereby it failed to realise that the ability to find, boiled water for its preparations, coupled with the literacy level to read the instructions properly, were not universal phenomenon.

Marketing globally also provides the marketer with five types of "leverage" or "advantages", those of experience, scale, resource utilisation and global strategy. A multi-product global giant like Nestle', with over £10 billion turnover annually, operates in so many markets, buys so much raw material from a variety of outgrowers of different sizes, that its international leverage is huge. If it consumes a third of the world's cocoa output annually, then it is in a position to dominate terms. This also has its dangers.

The greatest lift to producers of raw agricultural products has been the almost universal necessity to consume their produce. If one considers the whole range of materials from their raw to value added state there is hardly a market segment which cannot be tapped globally. Take, for example, oranges.

Not only are Brazilian, Israeli, South African and Spanish oranges in demand in their raw state worldwide, but their downstream developments are equally in demand. Orange juice, concentrates, segments and orange pigments are globally demanded. In addition the ancillary products and services required to make the orange industry work, find themselves equally in global demand.

So insecticides, chemicals, machinery, transport services, financial institutions, warehousing, packaging and a whole range of other production and marketing services are in demand, many provided by global organisations like Beyer, British Airways and Barclays Bank. Of course, many raw materials are at the mercy of world prices, and so many developing countries find themselves at the mercy of supply and demand fluctuations.

But this highlights one important global lesson—the need to study markets carefully. Tobacco producing countries of the world are finding this out. With a growing trend away from tobacco products in the west, new markets or increasing volumes into consuming markets have to be prospected and developed. Many agricultural commodities take time to mature. An orange grove will mature after five years. By that time another country may plant or have its trees mature. Unless these developments are picked up by global intelligence the plans for a big profit may be not realised as the extra volume supplied depresses prices. This happened in 1993/94 with the Malawian and Zimbabwean tobacco companies. The unexpected release of Chinese tobacco depressed the tobacco price well below expectations, leaving farms with stock and large interest carrying production loans.

A number of suppliers of agricultural produce can take advantage of "off season" in other countries, or the fact that they produce speciality products. This is the way by which many East African and South American producers established themselves in Europe and the USA respectively. In fact the case of Kenya vegetables to Europe is a classic, covering many of the factors which have just been discussed-improved technology, emerging global segments, shrinking communications gaps and the drive to diversify product ranges. Whilst the forces, market and otherwise, have been overwhelming in their push to globalisation, there remain a number of negatives. Many organisations have been put off or have not bothered going into global industry due to a variety of factors. Some have found the need to adapt the marketing mix, especially in many culture bound products, too daunting. Similarly brands with a strong local history may not easily transfer to other markets.

National Breweries of Zimbabwe, for example, may not find their Chibuku brand of beer (brewed especially for the locals) an easy transboundary traveller. More often than not sheer management myopia may set in and management may fail to seize the export opportunity although products may be likely candidates. Similarly organisations may refuse to devolve activities to local subsidiaries.

Other negative forces may be created by Governments. Simply by creating barriers to entry, local enterprises may be protected from international competition as well as the local market. This is typical of many developing countries, anxious to get their fledging industries off the ground.

DOMESTIC VS INTERNATIONAL MARKETING

International marketing strategies are developed by various multinational companies on a global level in order to set a common brand platform for their products and brands. It is then passed on to each local or domestic market which makes adjustments for their country and manages its implementation. Such a structure ensures a global brand consistency, pricing and messaging. It also can have significant cost savings as major advertising and marketing campaigns can be developed centrally.

Globalization has created new marketing behaviours, opportunities and challenges thereby making international marketing somewhat different from domestic marketing. Due to deregulation and techno-logical advances in transportation and communication, companies can market in, and consumers can buy from almost any country in the world. In this situation of heightened competition, it is important for companies to offer products that would be of interest in the global marketplace and also adjust their product and service features to each country's different cultures and values. They must choose what to produce, and how to price and communicate their products considering the different legal and political differences, language, and currency fluctuations.

To sum up, when multinational companies segment their target markets and position their products, cross-cultural literacy is necessary, which is a concept of glocalisation, requiring a company to "think globally and act locally". Without an understanding of cultural and structural differences between countries, even leading global corporations can fail in specific markets.

MODE OF ENGAGEMENT IN FOREIGN MARKETS

After the decision to invest has been made, the exact mode of operation has to be determined. The risks concerning operating in foreign markets is often dependent on the level of control a firm has, coupled with the level of capital expenditure outlayed.

The principal modes of engagement are listed below:

- Exporting (which is further divided into direct and indirect exporting)
- Joint ventures
- Direct investment (split into assembly and manufacturing)

EXPORTING

Direct exporting involves a firm shipping goods directly to a foreign market. A firm employing indirect exporting would utilize a channel/intermediary, who in turn would disseminate the product in the foreign market. From a company's standpoint, exporting consists of the least risk. This is so since no capital expenditure, or outlay of company finances on new non-current assets, has necessarily taken place. Thus, the likelihood of sunk costs, or general barriers to exit, is slim. Conversely, a company may possess less control when exporting into a foreign market, due to not control the supply of the good within the foreign market.

JOINT VENTURES

A joint venture is a combined effort between two or more business entities, with the aim of mutual benefit from a given economic activity. Some countries often mandate that all foreign investment within it should be via joint ventures. By comparison with exporting, more control is exerted, however the level of risk is also increased.

DIRECT INVESTMENT

In this mode of engagement, a company would directly construct a fixed/non-current asset within a foreign country, with the aim of manufacturing a product within the overseas market.

Assembly denotes the literal assembly of completed parts, to build a completed product. An example of this is the Dell Corporation. Dell possesses plants in countries external to the United States of America, however it assembles personal computers and does not manufacture them from scratch. In other words, it obtains parts from other firms, and assembles a personal computer's constituent parts (such as a motherboard, monitor, CPU, RAM, wireless card, modem, sound card, *etc.*) within its factories. Manufacturing concerns the actual forging of a product from scratch. Car manufacturers often construct all parts within their plants. Direct investment has the most control and the most risk attached. As with any capital expenditure, the return on investment has to be ascertained, in addition to appreciating any related sunk costs with the capital expenditure.

MEETING THE OPPORTUNITIES AND CHALLENGES OF GLOBAL MARKETING

In order to take advantage of global opportunities, as well as meet the challenges presented by so doing a number of concepts can be particularly useful.

Every organisation needs an understanding of what is involved in "strategy", or else the hapharzardness involved in chance exporting can be accepted as the norm with all inherent dangers involved. Also potential exporters need to know what is going on in the global "environment". Just as in domestic marketing "Government" "competition", "social" and other factors need to be accounted for, such is the case in international marketing.

If one can place products or services at a point on an environmental sensitivity/insensitivity continuum, one can see more clearly the need to account for differences in the marketing mix. By comparing the similarities and differences between domestic and international marketing needs and planning requirements, then the organisation is in a better position to isolate the key factors critical to success. This section examines all these concepts in brief.

STRATEGY

Whatever business we are in, haphazard organisation often leads to haphazard results. In planning for international marketing organisations need a clear picture of the steps involved. “Strategy” gives such a picture. Strategy is the response of the organisation to the realities of shareholders and the business environment.

THE GLOBAL ENVIRONMENT

Of all the steps in formulating strategy, no one step is as important as the ability to assess the “environmental” factors in international marketing. Taking account of cultural, economic and political differences is a must when dealing with different markets. More will be said on these factors in later chapters. Environmental analysis allows the organisation to cluster markets according to similarities and differences, based on the environmental “uncontrollable” factors. The international “uncontro-llables” are in addition to the organisation’s domestic “uncontrollables” so need to be treated with extra care. According to the “relationship” marketing school of thought, the so called “incontrollables” can be made more “controllable” by building relationships with the influences of these factors. For example, if an exporter of horticultural produce wishes to be able to anticipate changes in the political environment, it may build a relationship with certain politicians who may have intimate knowledge of the political system. This should not, of course, be misconstrued as “insider information”. However, having made this caveat, this text will treat the “incontrollables” in the conventional way.

INTERNATIONAL ENVIRONMENT

An analysis of the environmental uncontrollables allows the potential marketers to place products on a continuum of environmental sensitivity. At the one end are environmentally insensitive products and at the other end, those more sensitive to economic, sociocultural, physical and other factors. The greater the sensitivity, the greater the need for the organisation to learn the way the product interacts with the environment.

GLOBAL SHARE OWNERSHIP MANAGEMENT

There is a growing number of people in almost all countries who acquire shares through direct investment in the stock market or through managed funds. The global trend for privatization promotes share ownership in the place of state ownership. From Europe to Asia (even China), Africa, Latin America, and other regions, governments sell shares of state enterprises to individuals and investment institutions, thereby spreading an equity culture on a worldwide scale. This form of shareholder capitalism encourages a wider share of ownership as more and more individual investors participate in the stock markets. Such a trend encourages saving and investment and promotes economic stability and growth.

Financial exchanges around the world are rising rapidly via electronic trading. In the United States, Britain, France, Germany, Japan, and many other places, installed electronic systems speed up transactions in stocks, bonds, and other financial instruments all over the world. Such a revolution in financial services is globalizing shareholder capitalism to the degree that investors from all corners of the planet will be able to acquire shares and other financial instruments instantly from a number of stock markets.

Already, in New York, Chicago, Philadelphia, London, Paris, Frankfurt, and other places the old-fashioned auction markets on the floor, with hand signals and wads of paper, are rapidly being replaced by electronic trading. Electronic commerce networks around the globe can match a buyer and a seller independently with such services as “Instinet” and “Island.” The introduction of new technology, growing global competition, and the consolidation of stock markets, such as the Nasdaq with the American Stock Exchange and the Philadelphia Stock Exchange, intensify the use of the Internet and similar devices.

Democratic capitalism is based on freedom and openness, that is, on the combination of a free political society and an open economic system. It should not be based on economic combines and cliques of governments, business, and banks, as can be observed in Japan and other Asian countries, as well as in fascist, terrorist, and militarist regimes that result in nepotism, corruption, and oppression.

Nevertheless, in its effort to modernize its markets, Japan is urging individuals to invest more of their savings in securities. They have only about 7 percent investment in stocks, 2 percent in bonds, 35 percent in trusts and insurance and as much as 56 percent of their saving is kept in deposits with banks, including deposits with mailmen every morning. The Japanese are known for their high percentage of saving, being around 28 percent, compared to about 18 percent for the Europeans and as low as 2–4 percent or even negative for the Americans.

It is expected that Japanese investment in stocks and bonds would increase as the government is restructuring the financial system. Already the government, from time to time, buys large amounts of stocks to help prop up the stock market. There is skepticism, though, that some individuals would invest in U.S., stocks and bonds, where the yield is higher than that in Japan. Other countries in Asia and other parts of the world follow the example in Japan in reforming and opening their economies to global shareholder capitalism.

Large privatizations, particularly in telecommunications, airlines, and energy, foster the people’s appetite for equity ownership and strengthen the system of what Joseph Schumpeter called people’s capitalism. In Europe, Deutsche Telecom, France Telecom, Greek Telecom (OTE), Telecom Italia, Portugal Telecom, and Telefonica of Spain, along with Air France, Lufthansa of Germany, Olympic Airlines of Greece, Eni (the oil and gas group of Italy), Endessa (a Spanish energy group), and many other state enterprises offered shares to the public recently and induced people to buy more shares from private companies, thereby popularizing share ownership.

The United States, with more than 70 percent government ownership in postal services and 25 percent in electricity and railways, has a very small public sector, compared to other countries. However, the question of privatization versus public operations troubles many states and cities, including New York. Subways, public hospitals, posts, and other natural monopolies can raise prices as long as there is no competition or price controls by state and city commissions to protect the consumers. The dilemma of government inefficiency and private monopoly, which bothered Adam Smith and other classical economists, still remains and demands further research and reliable socioeconomic answers.

A number of big enterprises introduced schemes of employee ownership. For example, in order to succeed in its effort of privatization and reduce overheads, Air France allowed its pilots to acquire shares in the airline in return for wage cuts. The main offer is for the pilots to forgo 2–3 percent of their wages throughout their careers in exchange for an equivalent value of shares. The government will hold 53 percent of the airline, which is valued up to $4.2 billion, 15 percent will be reserved for the employees, and the rest will be offered to other investors.

Moreover, Lufthansa, the German state airline, introduced a programme according to which employees can have a stake in the company. In place of a pay raise, they can choose cash payment or an equivalent amount of stock. Moreover, employees can buy additional stock with interest-free loans from the company, and after two years they can sell the shares. If the price of shares at that time is lower, Lufthansa buys them back at no loss to the employees. In Italy, small investors are buying most of the stocks of privatized state enterprises. Some 2 million Italians signed up to buy shares in Telecom Italia S.p.A. No one was permitted to buy more than 1,000 shares. However, employees of Telecom Italia could buy as many shares as they wanted.

Finland also decided to privatize Sonera, the state telecom, offering 100 million shares to Finnish and international investors, worth up to $1.4 billion (FM7 billion), in a similar way to Swisscom and the Greek OTE. Sonera employees would get 2 million shares and Finnish investors 26 million, whereas the government would keep 80 percent ownership. The global offering is directed by Merrill Lynch.

The Greek government transferred 49 percent ownership of Skaramaga Shipyards to the employees and 51 percent to the National Bank of Industrial Development (ETBA), but with management by a British company. The Greek Shipyards of Aspropyrgos were sold to shareholders, whereas the shipyards of Elefsina and Neorion Syrou were privatized earlier. Moreover, shares of the state-owned telecom (OTE) are sold in the New York Stock Market.

Although the economic role of the government was expanded during the last half of the twentieth century, many state-run enterprises have been sold or are in the process of partial or total liquidation to domestic or foreign investors through the sale of shares. However, in order to preserve managerial competence with strong motivation and control, widely dispersed ownership may be forgone, although at the sacrifice of short-term distributional considerations. A large number of stockholders, in privatized public enterprises, with relatively small numbers of shares for each individual may be uninformed, ignorant, or apathetic. They may not have good knowledge of the position or operation of the enterprise and be unqualified to vote for efficient management, particularly during the early stages of transformation from the public to the private sector.

From the standpoint of efficient privatization, it is better to start with the liquidation or sale of small public enterprises and proceed with more complex large state-owned firms, as Mexico did in the 1980s. Sales in cash are always preferable to accepting debt because of the liquidity provided to settle liabilities of the state firm under privatization and to buy new machines and other technological instruments to modernize the firm. Moreover, it may be difficult for banks and other financial institutions to provide the needed funds.

France plans to sell shares of the France Telecom S.A., the biggest initial public offering ever, and to put on the market at least part of the company that will result from the expected merger of Aerospatiale S.A. and Dassault Aviation S.A. Moreover, Alitalia, the Italian state carrier, is in the process of privatization. A similar phenomenon can be observed with the Greek Olympic Airlines.

Macroeconomic, anti-inflationary, and other stabilization measures taken before privatization would have positive effects on prices and demand for shares of the privatized firms and other state assets.

SPREAD OF EMPLOYEE OWNERSHIP

In the United States, there are about 10,000 companies, compared to only 200 in 1974, that are partially or totally owned by more than 11 million employees through employee stock ownership plans (ESOPs). The decline of the labour unions from 33 percent of the labour force to around 14 percent seems to encourage the growth of ESOPs. About 500 ESOP companies are 100 percent owned and 1,500 are majority-owned by the employees. Approximately 1,000 ESOPs, or 10 percent, are in publicly traded firms, which employ more than half of the U.S., employee-owners. Around 4 percent of ESOP companies are unionized. Many companies created ESOPs for better performance or tax shelter.

Some large firms announced stock-ownership requirements for their executives. Also, shares may be held in a trust that the executives may not have bought (indirect ownership), whereas stocks may be held in retirement savings plans under the U.S., tax regulation 401 (k).

Included among some important firms that established an ESOP are Publix Supermarkets, Parson Corporation, Morgan Stanley Company, Thermon Electron Corporation, Bell Atlantic, Charles Schwab Corporation, Houston Industries, Avondale Shipyards, Amsted Industries, Southwestern Bell, Todd Products Corporation, New York Times Company, PPG Industries Inc., Austin Industries, and Weirton Steel Corporation. Also, American Airlines, in which employees own 55 percent of the company's equity, created an ESOP in exchange for wage concessions. It is expected that this arrangement, which expires in 2000, would be renewed and the rule that restricts employees from making other investments or to cash in their stock until retirement would be changed. Other airlines with ESOPs include United Airlines, TWA, Delta Airlines, Western, Republic, and Eastern Airlines.

More than half of the adult Americans own stock, either directly or through mutual funds, compared to about one fourth of the British, one sixth of the French, and about one tenth each of the Italians and the Germans. The proportions of shareholders of private firms are growing rapidly all over the world. American companies, such as Lehman Brothers, Salomon Brothers, and others, help promote the flotation of such firms.

In more details, about 100 million Americans own stocks (78.7 million at the beginning of 1999). About half of them are baby boomers (born from 1946 to 1963). Most of the shareholders are married and college graduates. Some 48 percent of American households owned stocks in 1999, directly or through mutual funds, mainly for retirement and other financial goals. Although only about 10 percent of stock trades are over the Internet presently, the numbers are expected to grow rapidly as electronic investing is easier and cheaper.

However, there is a significant concentration of stock ownership in the United States. About half of the stock is owned by the richest 5 percent of American households, those in the bottom 50 percent own less than 5 percent, whereas the bottom 75 percent of households own less than 20 percent. Stocks held through pension plans are included in these figures.

In order to expand at home and abroad, some companies, under partnership or other forms of ownership, may decide to go public, through issuing stocks and selling them in the stock market. Although a large number of international investors are expected to become shareholders of such companies, there is a danger that they may become acquisition targets in the present rush to consolidate. For example, Goldman, Sachs & Company, which advised clients such as BankAmerica and NationsBank as well as Daimler A.G. and the Chrysler Corporation to merge, plans to issue stocks and to go public, although there are fears of losing its independence by being a target of acquisition.

Some 20 percent of U.S., firms have programmes that allow their employees to buy stocks at a discount of 15 percent or more. Sometimes the discount is more than 20 percent when the firms apply it to the lower stock price of a certain period. However, there are proposals to limit the discounts in new issues of stock options to a lesser amount. Such discounts are popular with corporate executives but expensive for the issuing companies.

As automation is growing and machines and computers replace labour, a good alternative to unemployment or underemployment is share ownership, through which former and present employees become partial owners of companies and directly or indirectly they become employers of themselves.

The reduction of work hours per week, all over the world, and possibly reduction in wages, because of growing international competition, suggest the introduction and expansion of shareholder capitalism. The dividends and profits of employees and other small stockholders would keep overall demand for goods and services at satisfactory levels, thereby reducing the danger of severe recessions or depressions.

There is a growing trend of granting stock options to a broad range of employees by the companies in which they work, all over the world. According to a recent survey of 350 large U.S., firms, companies that have provided for broad-based option grants amounted to 30 percent; more than 11 percent of them made grants to most employees, particularly in high technology, compared to less than 6 percent in 1993. At least 1 in 10 of the companies offer stock options, typically in addition to salary and bonus, at a discount, not only to top executives as before but now to about 50 percent of midlevel managers, as well as to the lower-level employees.

Stock options give the employees the right to buy shares at a predetermined price after a specific date. It is estimated that 8 million Americans have such options, compared to only 1 million in 1992. Such options can be negotiated along with salaries and may be used for protection against hostile takeovers and against a falling stock price. Usually they can be converted into stock in three to five years and are popular with initial public offerings (IPOs).

An attractive form of options is that of the incentive stock options (ISO), often reserved for top executives. If the stock is sold, one year after the option is exercised, at a higher price, the tax to be paid is 20 percent (and Congress voted to reduce it to 15 percent, recently) on the profit (on long-run capital gain). This is usual with the options-rich tech sector for which people are optimistic currently. However, a falling stock renders options worthless. That is why it is better to ask for stock instead of options, unless the firm cuts the exercise price. Moreover, if the stock is sold into a year after the option is exercised, then full taxes would be paid on the profit (nonqualified tax).

The proliferation of stock options to employees is reducing the polarization between the executives and the lower-level employees,

as employees with options feel more like owners, have high work incentives, and increase their wealth when the Dow Jones rises, as it did over the last decade (from 1,000 in the early 1980s to more than 11,000 currently).

In this Corporate America lottery, in which 28 percent of U.S., wealth is tied up in stocks, giant mergers, such as that of Citicorp-Travelers Group, lead to stock-price jumps and high profits for the executives in charge. The same trend can be observed in other countries as well.

For that reason, the Securities and Exchange Commission allows companies that list their stock on the New York Stock Exchange to add new stock option plans as long as more than 20 percent of employees are eligible for options and at least half of them are below the level of company officer. In such cases, there is no need for shareholder approval for issuing stock options to top executives by many of the 3,046 companies on the Big Board.

Columbia Falls Aluminum reduced wages by 15 percent in return for profit-sharing for its employees. After one year from the related agreement with the workers (1986), the company started making profits. In recent years, however, the two executives of the company awarded $231 million to themselves and only $84 million to the employees, cutting them off from future profits.

Nevertheless, with union membership declining and real wages stagnant, workers care more about job security and share ownership than profit-sharing.

Support of Shareholding

Under a U.S., law introduced by Senator Russell Long in 1983, business owners who sell at least 30 percent of their companies to an Employee Stock Ownership Plan (ESOP) can defer capital gains if they invest the proceeds in bonds, stocks, or in a new company within a year. In this case, no capital gains taxes are paid when the new holdings are sold. A number of companies were sold to bigger competitors in exchange for shares of the acquiring firm, and no capital gains taxes are due from the sale of the new shares.

In order to increase international employee stock ownership, the Procter and Gamble Company, based in Cincinnati, announced that its 106,000 employees worldwide can buy up to 100 shares five years from the grant date of May 15, 1998, up to 10 years from and at the price of that grant date. Some 75 percent of the employees already own stocks of the company from previous years.

Polaroid, with headquarters in Cambridge, Massachusetts, is one of the thousands of U.S., companies with an ESOP. Every full-time employee of the company is a shareholder. In order to avoid a hostile takeover by Shamrock Holdings and preserve the jobs of the workers, Polaroid took a loan to buy 16 percent of its shares for its employees, which can be cashed after leaving the company. The employees accepted a cut of 5 percent of their salary for the payment of the loan and feel that the ESOP is a form of their pension plan, or forced savings, in addition to the power of the partial ownership and management they enjoy. Additional shares are distributed each year, and employees can buy shares on their own, especially when they expect that the prices of such shares will go up in the stock market.

The Eastman Kodak Company announced a programme to give 90,000 nonmanagement employees the option to buy 100 shares in a period of two years. Although employees are not making Polyanna's predictions, they feel optimistic about the performance of the company. At the same time, the pay of the chief executive, George Fisher, was cut in half, to $2 million, compared to the previous years. Some 20 percent of Kodak's work force was eliminated because of recent disappointing performance in world markets, where the Fuji Photo Film Company grabbed customers with lower prices. However, Fisher received options and shares worth about $64 million in place of a bonus.

Goldman, Sachs Company decided to go public at a value around $24 billion and give its 13,000 employees a stake of 20 percent in shares.

The Aramark Corporation, a managed-services company based in Philadelphia, plans to buy back all shares held by outsiders, worth $440 million, and become 100 percent employee-owned. This is a process the company started in 1984 when the management bought it for $1.2 billion. Employee-owners of the Trade Winds and the Sandpiper resorts in St. Pete Beach, Florida, agreed to sell them to South Seas Resorts for an undecided amount. The employees bought the properties through an ESOP in 1995 and plan to roll the profits over to an individual retirement account (IRA).

However, Kiwi International Airlines, with 550 employees, once successful under employee ownership, is in trouble again under the private ownership of Charles Edwards.

Some insurance companies, which are organized as mutual insurers and are owned by the policyholders, move toward changing their legal nature to become for-profit companies, in which the policyholders would be shareholders. In that way they would be able to sell stocks in the stock markets, domestically and internationally. Such companies are able to sell bonds and have lots of cash but they like to issue stocks as well and be able to compete long term and raise capital in the future. From the biggest life insurers in the United States only Teachers Insurance and Annuity, Connecticut General Life, and Equitable Life Assurance have the form of stock ownership. Many others, including Prudential, Metropolitan Life, New York Life, and others have the mutual status, and they want to issue and sell stocks. Some fifteen U.S., states allow such insurance firms to form holding companies and sell stock equal to 49 percent of the company's stake but without compensation to policyholders.

The Prudential Insurance Company of America, the nation's largest with some $260 billion assets, plans to convert policyholders to shareholders and distribute some $12 billion accumulated profits in stocks, instead of entirely in cash, to policyholders. However, there are complaints that the transformation of such companies to regular publicly traded companies would enrich management, enabling executives to collect lucrative stock options. Similar companies in other countries are expected to follow this measure of converting policyholders to shareholders and investors around the world to buy shares from different stock markets, thereby spreading the system of shareholder capitalism.

INITIAL PUBLIC OFFERING

Although there are cases in which companies buy back stock, reducing the number of shares outstanding, the new shares of companies entering the stock markets and the new issues of shares by the existing publicly traded companies are expanding rapidly worldwide. Among the recent buy-back cases is that of Bank of America Corporation, the largest American bank, which decided to buy back up to 130 million shares, or 7.5 percent of its stock, worth about $9.3 billion. Also, Morgan Stanley, Dean Witter, Discover and Company decided to buy back up to $3 billion of its stock. They completed their $11 billion merger in 1997, retiring some 8.2 percent of the 594.7 million shares outstanding. Likewise, Thermo Electron Corporation, founded in 1956 by its present chairman George Hatsopoulos, a Greek immigrant, is in the process of restructuring its twenty-three publicly traded subsidiaries dealing with energy, recycling, biochemical, and other technologies (including production of patriot rockets), as well as in an aggressive share-repurchasing programme.

Moreover, the May Department Stores Company plans to buy back up to $650 million, the third purchase plan in two years. Furthermore, Waste Management

Inc., the largest U.S., trash hauler, decided to sell some assets in order to buy back shares to increase the value of its depressed stock. A growing number of companies worldwide enter the stock market through sales of stocks for the first time. Such initial public offerings (IPOs) are promoted by specialized IPO underwriters, as Morgan Stanley, Dean Witter, Merrill Lynch, Goldman Sachs, Credit Suisse First

Boston, J.P. Morgan Securities, Salomon Smith Barney, and other major securities firms all over the world.

Although there is a risk in buying IPO stocks early, prices of such stocks increased dramatically in recent years, particularly for Internet companies. Such companies include RSL Communications Ltd., which is registered in Bermuda and decided to sell stocks for its Delta 3 subsidiary, IDT Corporation of New Jersey for its Netz Phone subsidiary, MarketWatch.com, Muktex.com, and many smaller firms. Even the London Stock Exchange, almost two centuries old, the New York Stock Exchange, and the Nasdaq Stock Market decided to end mutual ownership system and issue tradeable shares to their members.

When the stock market goes up, IPOs trade above their offering price. That is why some 70 percent of 3,200 hot IPOs since 1994 traded at higher prices than their offering price. Some shareholders realized very high returns in a short period of time, particularly with Internet-related stocks. Such IPO boomers include Healtheon (HLTH), which had an IPO on February 10, 1999, with $8 and the current price is $67 per share, which is a 738 percent return. Likewise, Theoglobe.com had 606 percent, Priceline.com had an IPO return of 550 percent, Foundy Networks 525 percent, Marketwatch 474 percent, Sycamore Networks 386 percent, Ask Jeeves 364 percent, and VerticalNet 300 percent. Twelve other companies had returns varying from 150 to 280 percent. Moreover, in a big IPO, the United Parcel Service (UPS) offered 109.4 million shares, on November 9, 1999, at $50 a share, and by the end of the day the price jumped to $68.125 a share.

Nevertheless, some cold IPOs, such as Aerospatiale (AERL) and Comps.com (CDOT), had some 50 percent loss each into one month. Some ten other companies had lower losses, varying from 28 to 48 percent, mostly in a period of two months. Moreover, Planet Hollywood gained 49 percent on the first day (4/19/1996), from $18 to $25.40, but by May 1999 it dropped to less than $1.

Therefore, domestic and international investors should be careful with IPOs, especially the noninstitutional investors, because the short-term performance, particularly in the first day of trading, is, in a number of cases, unreasonably high.

A number of companies sell shares to collect money to pay their debt or to cover expanding and other expenditures. For such initial public offering or additional equity offering to the public, they need the approval of the Securities and Exchange Commission (SEC) in the United States or similar institutions in other countries. Because many pension funds request more disclosure, some insurance firms are considering converting their operations from mutual to stock companies through IPOs.

In addition to Prudential Insurance Co. of America, mutual ownership firms that are in the process of converting to public trading companies in order to tap into the equity market include: Allmerica, with a value of about $230 million; Trigon Healthcare, with a value of more than $200 million; AmerUs Life, with a value of $77 million; Farm Family, with a value of $40 million, and many others that are announced almost every week. With the walls between financial services firms coming down, mutuals redefine themselves and move into some form of public ownership to stay competitive.

The partners of Goldman, Sachs & Company voted to sell shares of the worldwide known underwriter, which provides investment banking services to large firms and other rich clients. With this initial public offering, Goldman, which is worth more than $28 billion, expects to compete more effectively with Merrill Lynch & Company, Morgan Stanley, Dean Witter (which went public in 1986), and Salomon Smith Barney, which are using their stock to expand internationally, particularly through financing big mergers and acquisitions. By going public, the Goldman partners will be able to cash in by selling shares. In addition to so many domestic IPOs, from time to time, foreign companies enter into IPOs, mainly in the United States, through American Depository Receipts (ADRs). For example, from the 9.4 million ADRs of Celumovil S.A. of Colombia, each ADR representing two common shares, 5.6 million were offered in the United States and Canada, with Salomon Smith Barney as underwriter. Also, 32.8 million ADRs were offered by Corporation Bancaria de Espana S.A., each ADR representing half of a share. Moreover, Genesis Microchip Inc., Ontario, recently had an initial public offering of 2.9 million shares, whereas Steelcase Inc., Michigan, had an IPO of 12.2 million class A shares, 9.7 million of which were offered in the United States and Canada.

In order to pay part of its bank debt, Young & Rubicam Inc. decided to sell to the public some 16 million shares, that is, around one fourth of the company, at about $24 a piece. United Parcel Service of America Inc., the world's largest package delivery service, which is owned by its employees, decided to sell 10 percent of itself to the public for $5 billion. It seems that it found it hard to resist the siren song of Wall Street in a period of instant riches.

DEMOCRATIZATION OF THE ECONOMY

The increase in the number of shareholders leads to the democratization of capitalism worldwide. Gradually and quietly we are transformed into a society of shareholders or a society of democratic

capitalism. This transformation has a serious impact on the stock markets and the economies around the world as more and more people invest their money into stocks directly or through mutual funds.

In the United States, in an NBC News/Wall Street Journal poll in October 1997, 51 percent of adults said they own stock shares or mutual funds, whereas 53 percent of registered voters are shareholders. In addition to direct American participants in the U.S., stock markets, there are another 110 or so million indirect participants in the markets. As a result, the demand for stocks and their prices, promoted by the 600 broker-dealer members of the NYSE, increased dramatically. In the last decade and a half, the Dow Jones Industrial 30 accented from 800 to 9,374.72 and more than 11,000 as of this writing, attracting millions of investors into the market. Likewise the Nasdaq composite index and the Standard & Poor's 500 stock index climbed to very high levels.

Sometimes, cable TV, the Internet, and other mass media are contributing to the popular passion for stocks and also to high nervous tension, similar to that of lottery or casino gambling, sex scandals, and sports, at the expense of the traditional virtues of industry and thrift. In order to cool off transactions and avoid panic, when there are large declines in stock markets, brackets are introduced in the NYSE and other stock exchange markets. Partial or total privatization of Social Security and putting the money collected from contributions into the stock markets would increase share ownership, domestically and internationally, thereby introducing gradually a global system of shareholder capitalism. The same thing can be said for pension and mutual funds that put their money into domestic and international stock markets.

Nevertheless, the mania for investing in stocks may distort our political and cultural life, create speculative riche, and exacerbates inequality. In such cases, shares may be overvalued, as has happened in the U.S., stock market since 1982, when returns averaged 19 percent per year and 30 percent annually the last three years, compared to around 5 percent on money-market accounts and certificates of deposits or CDs.

People usually prefer money from speculation and inheritance, looking forward to early retirement, over money from earned income and saving. Also, large amounts of money are borrowed through credit cards, margin-requirement (using stocks as collateral), or otherwise to play in the sophisticated casino or the sacred temple of the stock market, not only by the prosperous but the middle class and working people as well.

The idea that work is honorable and economy a virtue becomes less important compared to the practice of short-run speculative riches via

the stock market and the sordid behaviour for unearned wealth. In pursuing happiness, the citizen investor puts more and more emphasis on the material possessions and not on the elimination of desires, which Plato emphasized some twenty-five centuries ago when he mentioned in his *Republic* that appetites and desires should be subordinated to reason and virtue.

Putting too much emphasis on material possessions may lead to what Thomas Malthus (1798) and later John Maynard Keynes (1936) mentioned, overproduction, as happened during the Great Depression in the 1930s. With the split of wealth through shareholder or democratic capitalism, there will be more flexibility in the market, less defective demand, and a better approach to what is known as Say's law that "supply creates its own demand." In such a case, there will not be much need for public policy and a supportive government role in the economy.

The doctrines of private ownership and free market, advocated mainly by Aristotle (fifth century B.C.), Adam Smith (1776), Jean-Baptiste Say (1803), David Ricardo (1817), and other classical economists, may be better implemented through a system of shareholder or popular capitalism, as modern Saysians may also advocate.

This is so, because shareholder capitalists are expected to feel more secure on spending for consumption and investment, thereby avoiding overproduction or inflationary pressures and moving closer to an acceptable balance of supply and demand.

On the political front, shareholder democracy is different from political democracy. In the first case, shareholders have voting rights proportional to their ownership stakes, whereas in political democracy the voting rights are equal for all citizens regardless of property ownership.

Moreover, stock market profits are treated more leniently, as taxes were reduced from 28 percent to 20 percent (1977 budget bill) for capital gains from stocks held more than a year and the U.S., Congress voted to reduce the rate to 15 percent, compared to the top rate of 39.6 percent on income earned. This is an incentive for people to buy shares in order to set up a tax shelter, with the result of weakening the productive work ethic as a dollar gained beats a dollar earned.

With about half of the country in the stock market, inflated stock prices or the "irrational exuberance" of the stock market incorporates the risk of a sudden collapse, which may possibly lead to a recession or depression, as happened in the 1930s.

It is unreasonable for an economy to grow at 5 percent a year and a stock market 20 percent or more a year for many years.

Historically, the percentage of American household assets in stocks changed from 16 percent in 1945 to 26 percent in 1968, back to 12 percent in 1990, and as high as 28 percent in 1997, the highest ever and even more later.

Stocks accounted for 43 percent of financial assets, including mutual funds, bank accounts and securities, whereas gains on stocks have averaged 8 percent per year, historically, and 30 percent annually for the five years 1995–1999. According to the Federal Reserve, recently employee-controlled plans were half of the more than $3 trillion in corporate pension plans at the end of 1996, compared to one fourth at the beginning of the 1980s. Saving fell to 3.8 percent of disposable income in 1997, and even negative (–0.2) at the end of 1998 and later, the lowest since the Great Depression of the 1930s, compared to 9.5 in 1974. It seems that the new symbols of the American life are "Mom, apple pie, and stocks."

Developing countries with cheap labour tend to use domestic and foreign financial means to invest in labour-intensive projects, whereas developed countries with plenty of capital tend to finance capital-intensive projects. This process would continue until equalization of factor remuneration worldwide, although this requires a long period of time to be realized.

CURRENT ACCOUNTS, MARKET CAPITALIZATION, AND EXTERNAL DEBT

Current accounts, which is the most important part of the balance of payments of any country, includes transactions in goods and services as well as income from investment abroad. As long as there are deficits in current accounts, external debt is expected to increase. The current account balances and international reserves for a number of developed and developing countries.

The United States has the largest deficit in current accounts, followed by Brazil, Australia, Thailand, and Germany. Japan has the highest amount of international reserves, followed by China, the United States, and Germany. Usually, countries with persistent deficits in current accounts end up with large debts, which in turn require sizable international reserves for the payment of debt service. Brazil, with about half of the South American population and half of the GDP, owes some $230 billion in foreign debt. Nevertheless, as a result of the devaluation of the real and the lifting of the exchange controls, the financial conditions are expected to improve. However, severe fiscal policy measures are needed to reduce the swollen budget deficit of around $65 billion or 8 percent of the GDP and 8 percent unemployment and to lower interest rates, which run at rates over 40 percent. This would increase further foreign direct investment, which increased from $2 billion in 1994 to $35 billion now, and improve foreign reserves, which declined from $75 billion in the summer of 1998 to around $30 billion now.

THE USE OF TECHNOLOGY

New technology is primarily embodied in new investment. The use of new investment may result in proportionately more capital per unit of output (capital-deepening or labour-shallowing technology) or more labour per unit of output (labour-deepening technology) or in equiproportional change in capital and labour per unit of output (capital-widening technology). It is a worldwide phenomenon that in periods of high unemployment, politicians and economists may argue in favour of labour-using technology. In such cases, depending on factor endowment and skills available, governments can encourage labour-deepening technology, which is using more labour (L) and less capital (K) per unit of output (O). This can be done through subsidies and taxes or other fiscal measures. Also, projects with capital-widening technology can be selected. In that case, the capital/labour ratio remains the same along the expansion line (0, O1, O2, O3) as output moves up the hill to higher levels of production.

Depending on the availability of factors of production and the relative prices of the services of labour (w) and capital (r), substitution of one factor for the other may take place in the production function. The elasticity of substitution of capital (K) for (L), EKL, in different terms can be expressed as follows:

$$EKL = –d\ (K/L)K/L:\ d\ (r/w)r/w$$

Thus, if the percentage change in capital/labour ratio, d (K/L)/(K/L), is 20 percent and the percentage change in the rental/wage ratio, d (r/w)/(r/w), is 10 percent, then the elasticity of substitution, EKL, is –2; that is, EKL = –0.20:0.10 = –2 Or, for each change in rental/wage ratio there is a double change in the capital/labour ratio. Developing countries with cheaper labour tend to use domestic and foreign financial means to invest in labour-intensive projects, whereas developed countries with plenty of capital tend to finance capital-intensive projects. This process would continue until equalization of factor remuneration worldwide, although this requires a long period of time to be realized.

EFFECTS OF NATIONAL POLICIES

National economic policies and fiscal policies in particular not only affect changes in domestic deficits and debts but also have repercussions on the debts of other countries. Measures on multinational corporations and mergers, rules and regulations to minimize government distortions of capital and technology transfers, and controls on foreign exchange rates and financial transactions influence and are influenced by fiscal and monetary policies in other nations. Technical and financial assistance, government guarantees for bank loans, the absence of tax discrimination, and international agreements for business protection and economic cooperation affect world trade and play a significant role in changes in economic, financial, and social conditions in other countries.

The need for international fiscal cooperation and coordination of demand policies requires that the tax equity and tax neutrality principles of public finance be extended from an inter individual to an international level. Government aid and capital transfers among nations should consider the principles of efficient allocation and income distribution as a way of raising economic growth, in the long run, without debt accumulations. Along these lines, investment in sectors and regions with low capital/output ratios is expected to receive priority in capital formation, subsidies, and other incentive policies. In low-income regions and nations, where the private sector hesitates or is unable to undertake the construction of needed infrastructure facilities, the public sector has an important role to play in allocation resources and training people, especially in the early stages of development. However, state enterprises and the public sector in general are responsible for large budget and trade deficits, which bring about big foreign debts. Laxity in fiscal and monetary discipline, structural rigidities, and biased growth strategies in rich and poor countries, as well as the rise in protection sentiment, are some of the factors responsible for huge external debts and the financial dependency of mainly Third World countries.

To avoid a worldwide financial crisis and to soften economic shocks, which could lead to fiscal and social disruptions, an expanded role of the IMF has been introduced. Such a role includes the introduction of fiscal performance clauses, ceilings on budget deficits, restrictions on bank credit to the public sector, and controls on public enterprise pricing policies. In more practical terms, debt rescheduling and refinancing include provisions that debtor countries introduce austerity measures to balance their public budgets, deflate their economies, and reduce or eliminate balance-of-trade deficits. Empirical evidence suggests that a one percentage point increase in the ratio of fiscal deficit to GNP would cause a deterioration of the current account by about half a percentage point. Therefore, from the point of view of domestic policy, fiscal restraints, together with currency adjustments, can be applied in order to keep the current account balance from worsening. The urgent priority, therefore, is to reduce budget deficits, which affect current account balances, foreign debt, and currency adjustments.

To prevent an international economic crunch from foreign loan defaults, especially from Latin American countries, budget deficits should be adjusted. This pressure for a possible foreign credit crunch is expected to be severe in the foreseeable future because a number of countries look perilous, for both economic and political reasons.

Continuation of high interest rates because of large budget deficits in many countries aggravates the world debt crisis and threatens widespread protectionism. Countries with large debts, such as Brazil, Mexico, Argentina, Poland, Yugoslavia, Romania, Chile, Peru, Turkey, and the Philippines, ask for long-run debt rescheduling with lower interest rates and other loan fees. The alternative may be widespread defaults and large-scale bankruptcies of creditor banks.

More than 800 banks are owed money by Brazil alone. They include large banks such as Chase Manhattan, Morgan Guaranty Trust Company, and Citibank. It would seem, then, that poor people abroad and banks and taxpayers in rich nations share a common interest to stimulate international trade and avoid a world financial crisis. Thus domestic fiscal and monetary policies become more and more intertwined with international economic policies.

Whether we commend or condemn the U.S., fiscal policy, the net capital inflow is not all a simple direct result of the previous budget deficits and the increase in national debt. In addition to the demand for U.S., government securities, the inflow of foreign funds reflects also a significant increase in private-sector deposits and investments in stocks and other financial instruments. On the other hand, U.S., banks have

started reducing lending to financially unstable developing nations. This has reduced the supply of dollars abroad and contributed in making the United States a net international borrower. U.S., fiscal and monetary discipline, then, would help world economic growth and lead nations towards a socioeconomic convergence.

According to Vassily Leontief, the Nobel Prize winner for economics in 1973, the cost to U.S., taxpayers of propping up friendly "authoritarian" countries and combating hostile "totalitarian" regimes in developing countries with large debts is expected to increase. On the other hand, record deficits up to recent years have propelled U.S., debts to high levels and are used to pay for themselves. Under such a heavy burden, the government might be unable to rescue defaulting debtor nations and U.S., banks.

REASONS AND PROBLEMS OF FOREIGN DEBT

Emerging countries with small and less advanced financial markets face great risks from relaxing capital controls, because investors easily lose confidence in their economic policies and take capital out of these countries. At times, they get swamped with foreign investment capital, but they are characterized by loose regulations, insider dealing, weak accountability, and crony capitalism. Under such conditions, their financial markets are unstable, and in cases of small disturbances the banking system is in trouble and investors take capital out of these regions.

A number of emerging nations use short-term money from abroad to support public sector expenditures and investment in real estate and other non-exported ventures.

With weak exports, foreign debts are growing, local currencies are weakened, and servicing the debts becomes problematic. The usual policies of budget cuts and sharply higher interest rates to avoid currency devaluation may work in the very short term, but they may lead to an economic downturn and panic difficult to reverse.

The financial crisis of October 1997 and later in Asian countries (mainly Indonesia, Malaysia, the Philippines, and Thailand), which spread to South Korea and Japan as well as Russia and other emerging and even advanced financial markets, is related to such unwise policies. As a result of the crisis, the worst in thirty years, Indonesia has 130 million people under poverty in a total population of 206 million and a debt of around $100 billion.

The deficits of the bloated public sector, stemming mainly from money-losing state enterprises and organizations, result in high rates of inflation and large debts, mainly foreign debts. Some emerging

nations may achieve a lower rate of inflation at the cost of higher debt. In order to avoid "imported" inflation—inflation due to the rising prices of imports—they may keep their currency overvalued, ignoring the detrimental effects of this policy on the balance of trade and the current accounts deficit. As a result, exports become more expensive, whereas imports become cheaper for the nations, leading to high foreign-trade deficits and more borrowing from abroad.

For decades, politicians have gathered votes by having many unneeded workers placed on the payrolls of state enterprises. As a result, emerging nations end up with many employees, as a ratio to population, compared to other developed countries.

At the same time, they have a small number of university students, related to their population, compared to other advanced countries. For example, there is 1 student in 90 persons in Greece (115,000 students for 10.4 million population), compared to 1 in 18 in the United States (14.3 million students for 264 million population). India and Iran are also among the first countries exporting students.

With large numbers of students studying abroad at any given time, a number of emerging nations are exporters of students to foreign universities, resulting in both a huge immediate drain for the economy and a dramatic brain-drain for society. The establishment of independent nonprofit universities, where the students pay tuition, similar to those in the United States (Harvard, Yale, M.I.T., Columbia, Fordham, N.Y.U., *etc.*) and other countries, capable of absorbing thousands of good candidates who prefer such universities, is an absolute necessity for such nations with large public sector deficits.

To retain the confidence of investors and to increase productivity, drastic measures are needed by emerging nations to reduce public sector expenditures, through denationaliza-tion of public enterprises and the education of their youth for a better future.

To reduce their national debt, governments of emerging nations announce, from time to time, the issue of bonds that may be converted to shares of state-owned enterprises that can be introduced in stock markets. Such bonds can be in local currencies or in hard currencies, like dollars or euros, with interest rates less than that of similar traditional bonds; also, the price of shares, into which the bond will be converted, may be higher than the prevailing price at the time of conversion.

The debt of the public sector in many countries is high mainly because of the large number of employees employed in governmental enterprises and organizations. For example, in Greece there is 1 public employee per 19 persons of the population, compared to 92 in Britain. As a result, the country is among the countries with the highest government sector and the highest per capita public debt. Some 40 trillion drachmas was the debt of the public sector in 1997, or about $130 billion, about $50 billion of which is foreign debt. However, recent measures of privatization and reduction in inflation would enable the economy to enter the euro.

In order to reduce the national debt, the Greek government announced the issue of a new bond that may be converted to shares of state-owned enterprises already introduced in the ASE, or not yet introduced in the ASE but controlled by the government.

This bond, with maturity of five to seven years, can be in drachmas or in euros with an interest rate 1.5–2 percent less than that of similar traditional bonds and a price of shares, into which the bond will be converted, 15–20 percent higher than the prevailing price at the time of conversion. The name of the bond was Balantir-bond, from the name of the French Minister of Finance, Edwart Balantir, who introduced such bonds in France in 1993.

The high interest some governments pay to sell their bonds domestically and the overvaluation of their currencies lead to high financial speculation and deterioration of the economy. For example, one could borrow dollars, euros, or other hard currencies with a lower interest rate and invest this money in higher interest bonds domestically, gaining the difference by repurchasing such hard currencies with the relatively constant prices in local currencies.

Some governments find refuge in the erroneous policy of avoiding the depreciation or devaluation of their currency at all cost. This is the result of a pervasive fear to deal decisively with entrenched interests and powerful public sector labour unions. Nevertheless, serious measures are taken to privatize state-owned enterprises and to reduce inflation and debt.

Nigeria, with more than $30 billion foreign debt and a population of 200 million, faces serious problems, mainly fluctuation of oil prices. Some 20 percent of its population is living on less than $1 a day, as are 1.5 billion poor people in the world, in a growing inequality.

Turkey's foreign debt increased significantly, from $19.1 billion in 1980 to $79.8 billion in 1996 and as high as $154 billion currently ($2,444 per capita) or 73 percent of GDP. For the immediate need to service the debt, the Turkish government requested $10–15 billion from the IMF. The heavy debt is mainly the result of heavy budget deficits that reached 15 percent of GDP per annum.

It is estimated that the current foreign currency reserves for Argentina amount to $25 billion, whereas about $34 billion are needed to forestall a currency devaluation. Brazil has only about $47 billion currency reserves, but about $200 billion is needed; Mexico has $30 billion and needs $100 billion, respectively.

To avoid a virulent financial crisis that may send the whole world into a recession or depression, developed countries, in cooperation with the IMF, should support develo-ping countries to avoid a currency devaluation that may affect many other countries including the United States, which exports more than 20 percent of its exports to Latin America, where there are many American factories.

In order to satisfy the International Monetary Fund and prove a stronger government commitment, Venezuela will attempt to modernize its public finances and to increase the rate of economic growth by more than 5 percent annually. The annual non-oil deficit of the government is about 10 percent of Gross Domestic Product, and the IMF would like to see this reduced to about half of that amount in a few years, mainly through a reduction of public sector workers.

7

The Strategy of International Business

Contents: how firms can increase their profitability by expanding their operations in foreign markets, different strategies that firms can pursue when competing internationally, and the pros and cross of these strategies. In addition, various factors affecting the firms' choice of strategy.

STRATEGY AND THE FIRM

Firms are in the business of making profits by value creation — being able to sell what they make for more than it costs to make it. Thus, they create value by either lowering the costs of production or raising the value so that consumers will pay more. A firm can add more value to a product when it improves the product's quality, provides a service to the consumer or customize the product to consumer needs in such away that the consumers will pay more for it.

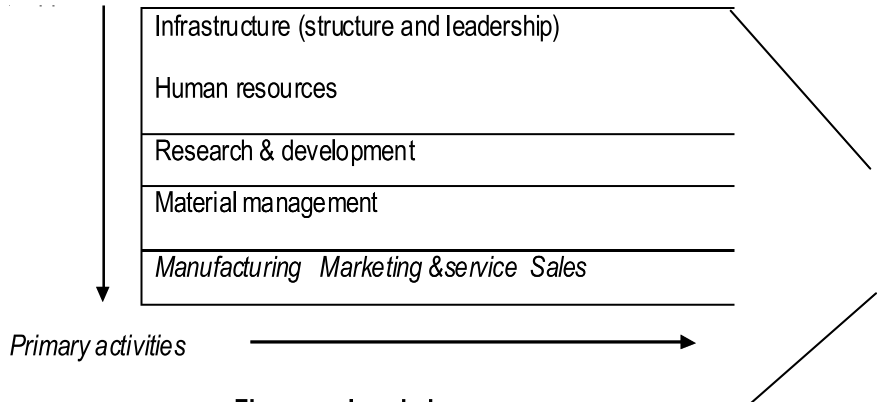
Firms can lower the costs of value creation when they find ways to perform value creation activities more efficiently. Thus, there are ttwo basic strategies for improving a firm's profitability- a differentiation strategy and a low cost strategy.

To extend this, it is useful to use the value creation approach, as shown in Figure.

SUPPORT ACTIVITIES

Firm is value chain composed of a series of distinct value creation activities, including production, marketing, materials management, R&D, human resources information systems and the firms;' infrastructure. These value creation activities are classified into primary activities and support activities. Primary activities:

these have to do with creating the product, marketing and delivering the product to buyers and providing support and after sales service to the buyers of the product. Efficient production can reduce the costs of crating value (by realizing scale economies) and can add value by increasing product quality (by reducing the number of defective products)



Firm as value chain

Support activities: these provide the inputs that allow the primary activities of production and marketing to occur. The material management function controls the transmission of physical materials through the value chain from procurement through production into distribution. It also can monitor the quality of inputs into the production process. The R&D function develops new products and process technologies, which can reduce production costs and can result in the creation of more useful and more attractive products than can demand a premium price.

An effective human resources function ensures that the firm has an optimal mix of people to perform the primary function efficiently. Information systems helps in getting the information it needs to maximize the efficiency of it value chain and to exploit information based competitive advantages. Firm's infrastructure with factors such as organizational structure, general management, planning, finance and legal environment also help the firm achieve more value in the primary activities.

THE ROLE OF STRATEGY

Strategy can be defined as the actions that managers take to attain the goals of the firm.

To be profitable in a competitive environment, affirm must pay continual attention to both reducing the costs of value creation and to differentiating its product offering in such a manner that consumers are willing to pay more for the product than it costs to produce it.

Strategy is about identifying how best a firm can go about creating value. It is often helpful for a firm to base each value creation activity at the location where factors are most conducive to the performance of that activity.

CULTURAL DIFFERENCES IN BUSINESS: CHALLENGES AND OPPORTUNITIES

This book is written with the primary objective of integrating the insights and findings of cultural anthropology with the practice of international business. By focusing on the nature of cultural differences, we cannot avoid pointing out the many pitfalls awaiting the naïve (culturally uninformed) businessperson ready to embark on international business. In fact, at times, the reader might be overwhelmed with the daunting number of cultural differences that can result in needless misunderstandings (and a lack of success) when marketing, negotiating, or managing foreign workforces abroad.

The purpose of focusing on cultural differences is not to discourage the reader from entering the realm of international business, but rather to educate the reader to:

- Understand those cultural features different from one's own and
- Use that knowledge to alter one's own behaviours so as to more effectively meet ones professional objectives.

Thus, the more knowledge we have about our culturally different business partners, the more likely as suggested, avoid cross-cultural misunderstanding.

We are not suggesting that we eliminate, or even reduce, the number of the cultural differences by having you either:

- Give up your own culture, or
- Force your own culture upon others.

Rather, it is important to recognise cultural differences, learn as much about them, and also understand that cultural differences provide opportunities for organisational synergy. That is, when people from two different cultures work cooperatively in an atmosphere of mutual understanding and respect, the outcome can be more productive than either group working independently. This can be illustrated by a U.S., manufacturer of cell phones wanting to expand its markets into Africa. One effective strategy for obtaining a larger market share of cell phones is for the U.S firm to create an ongoing dialogue between its international marketing department, its new product development department, and the local African sales representatives in cities such as Lagos, Nigeria, Nairobi, Kenya, and Dakar, Senegal. The local sales force knows the local needs, which professions can be served best by cell phones, which features are most important, and what people would be able to afford. These local salespeople would know that local fishermen would profit handsomely by having the capacity to contact various restaurants and fish markets via cell phone while they head back to port with their day's catch. These fishermen would not need all of the "bell and whistles" found on many cell phones, but rather an inexpensive way to communicate to their customers while they are several miles out at sea. Once the local fishing industry has been identified as a potential new market, the R&D people can develop an inexpensive phone that would meet the needs of the fishermen.

Thus by pooling their different expertise, the company and the local African sales representatives can more effectively develop new products that will expand the cell phone market. It is also important to understand that cultural differences can be used as assets rather than liabilities when multinational corporations form task-oriented teams based on cultural diversity. It has long been known that culturally diverse groups (provided that all members understand and respect the cultural perspectives of one another) perform tasks better than culturally homogeneous groups.

For example, in experiments conducted by W. E. Watson, Kamalesh, and Michaelson, socially and culturally diverse work groups out-performed more homogeneous ones when the tasks were openended and the goal was to generate as many creative solutions as possible. Thus, if managed successfully, cultural diversity within an organisation can be an asset rather than a potential liability, that is, something that must be eliminated from the corporate structure as quickly as possible.

CROSS-CULTURAL SCENARIOS

Read the following cross-cultural scenarios. In each mini-case study, a basic cultural conflict occurs between the actors involved. Try to identify the source of the conflict and suggest how it could have been avoided or minimised. Sam Lucas, a construction supervisor for an international engineering firm, had been chosen to supervise construction on a new hotel project, in Jidda, Saudi Arabia, primarily because of his outstanding work record.

On this project, Sam supervised the work of about a dozen Americans and nearly one hundred Saudi laborers. It was not long before Sam realised that the Saudi laborers, to his way of thinking, were nowhere as reliable as the workers he had supervised in the United States. He was becoming increasingly annoyed at the seeming lack of competence of the local workforce. Following the leadership style that held him in such good stead at home, he would reprimand any worker who was not doing his job properly, and he would make certain that he did it publicly so that it would serve as an object lesson to all the other workers. He was convinced that he was doing the right thing and was being fair, for after all, he reprimanded both Americans and Saudis alike. He was troubled, however, by the fact that the problems seemed to be growing worse and more numerous.

WHAT ADVICE MIGHT YOU GIVE SAM?

George Burgess was a chief engineer for a machinery manufacturer based in St. Louis. His company had recently signed a contract with one of its largest customers in Japan to upgrade the equipment and retrain mechanics to maintain the equipment more effectively. As part of the contract, the Japanese company sent all ten of their mechanics to St. Louis for a three-month retraining course under George's supervision. Although George had never lived or worked abroad, he was looking forward to the challenge of working with the group of Japanese mechanics, because he had been told that they were all fluent in English and tireless workers. The first several weeks of the training went along quite smoothly, but soon George became increasingly annoyed with the constant demands they were making on his personal time. They would seek him out after the regularly scheduled sessions were over for additional information. They sought his advice on how to occupy their leisure time. Several even asked him to help settle a disagreement that developed between them. Feeling frustrated by all these demands on his time, George told his Japanese trainees that he preferred not to mix business with pleasure. Within a matter of days, the group requested another instructor.

WHAT WAS THE PRINCIPLE OPERATING HERE?

Bernice Caplan, purchaser for women's apparel for a major U.S., department store, had just taken over the overseas accounts. Excited and anxious to make a good impression on her European counterparts, Bernice worked long, hard hours to provide information needed to close purchasing contracts in a timely manner. Stefan, one of her Dutch associates in Amsterdam, sent an urgent message on May 1 requiring information before the close of day on 6/5.

Although she thought it odd for the message to be marked URGENT for information needed over a month away, Bernice squeezed the request into her already busy schedule.

She was pleased when she had whipped together the information and was able to fax it by May 10, three full weeks before the deadline. Pleased with herself, she placed a telephone call to Stefan to make sure that he had received the fax and was met with an angry, hostile response.The department store not only lost the order at the agreed-upon cost, but the Dutch office asked that Bernice be removed from their account.

WHERE DID BERNICE GO WRONG?

Bob Mitchell, a retired military attaché with considerable experience in the Middle East, was hired by a large U.S., computer software company to represent it in a number of Persian Gulf countries.

Having received an introduction from a mutual acquaintance, Bob arranged to meet with Mr. Saade, a wealthy Lebanese industrialist, to discuss the prospects of a joint venture between their companies. Having spent many years in the Middle East, Bob knew that they would have to engage in considerable small talk before they would get down to business.

They talked about the weather, Bob's flight from New York, and their golf games. Then Saade enquired about the health of Bob's elderly father. Without missing a beat, Bob responded that his father was doing fine, but that the last time he saw his father at the nursing home several months ago he had lost a little weight.

From that point on, Saade's demeanor changed abruptly from warm and gracious to cool and aloof. Though the rest of the meeting was cordial enough, the meeting only lasted another two hours, and Bob was never invited back for further discussions on the joint venture.

WHAT WENT WRONG?

U.S., fertilizer manufacturer headquartered in Minneapolis decided to venture into the vast potential of third-world markets. The company sent a team of agricultural researchers into an East African country to test soils, weather conditions, and topographical conditions in order to develop locally effective fertilizers.

Once the research and manufacturing of these fertilizer products had been completed, one of the initial marketing strategies was to distribute, free of charge, one hundred-pound bags of the fertilizer to selected areas of rural farmers.

It was thought that those using the free fertilizer would be so impressed with the dramatic increase in crop productivity that they would spread the word to their friends, relatives, and neighbourss. Teams of salespeople went from hut to hut in those designated areas, offering each male head of household a free bag of fertilizer along with an explanation of its capacity to increase crop output.

Although each head of household was very polite, they all turned down the offer of free fertilizer. The marketing staff concluded that these local people were either uninterested in helping themselves grow more food and eat better or so ignorant that they couldn't understand the benefits of the new product.

WHY WAS THIS AN ETHNOCENTRIC CONCLUSION?

While on a short business trip to Bolivia, Dr. Susan Henry, an organisational consultant from Atlanta, is invited to the home of one of her Bolivian business associates. Wanting to express her gratitude, Susan brings the host a couple of dozen purple tulips.

When Susan presents them with the flowers, however, she notices that both the husband and the wife look startled. After the flowers had been taken to the kitchen, Susan feels somewhat insulted because they never displayed the flowers nor thanked her for them.

As an organisational consultant from Philadelphia working with a Mexican company, Dan Shaver has been traveling to Mexico City every other week for months to help his client develop more-effective management systems. On this occasion, Dan scheduled a three-day trip, during which he planned to meet with a number of employees.

But on the first day of scheduled meetings, Dan was informed that everyone would be leaving work at 2:00 P.M. because it was a fiesta day. Dan was furious because he had come all the way to Mexico just to have his first day of work cut short. As it turns out, Dan's Mexican colleagues failed to understand why he was so angry.

WHAT WAS BEHIND THIS MISUNDERSTANDING?

As an international organisational consultant from Toronto, Melissa Post was working on a two-month project in Quito, Ecuador. After several weeks on the project, Melissa had become a very good friend with Maria, a local employee of her client. Melissa had noticed that whenever Maria greeted her other female friends from Ecuador, they would kiss each other on the cheek. Since Melissa was feeling very good about her relationship with Maria, she decided that the next time they ran into one another outside the office, she would greet Maria with a kiss on the cheek. So, several days later Melissa unexpectedly met Maria at a coffeehouse and greeted her with an enthusiastic kiss on the cheek. Much to Melissa's surprise, Maria seemed startled and somewhat put off by the greeting.

CULTURES ARE INTEGRATED WHOLES

Cultures should be thought of as integrated wholes—that is, cultures are coherent and logical systems, the parts of which to a degree are interrelated. Upon confronting an unfamiliar cultural trait, a usual response is to try to imagine how such a trait would fit into one's own culture; that is, we look at it ethnocentrically, or from our own cultural perspective. All too frequently we view an unfamiliar cultural item as simply a pathological version of one found in our own culture. We reason that if the foreign cultural item is different and unfamiliar, it must be deviant, strange, weird, irrational, and consequently inferior to its counterpart in our own culture. This ethnocentric interpretation, with its unfortunate consequences, is the result of pulling the item from its proper cultural context and viewing it from the perspective of one's own culture.

It is also the result of the individual's inability to see the foreign culture as an integrated system. When we say that a culture is integrated, we mean that it is an organised system in which particular components may be related to other components, not just a random assortment of cultural features. If we can view cultures as integrated systems, we can begin to see how particular culture traits fit into the integrated whole and, consequently, how they tend to make sense within that context. Equipped with such an understanding, international businesspeople should be in a better position to cope with the "strange" customs encountered in the international business arena. Perhaps a specific example will help clarify this notion of integrated culture.

Most Americans have difficulty identifying with the marital practice of polygyny (a man having two or more wives at the same time). In addition to general misgivings about polygyny, a number of compelling reasons militate against its inclusion in the American cultural system. In other words, other parts of U.S., culture not only fail to support polygyny but also actually conflict with it.

First, if a man attempts to have more than one wife at a time, he runs the risk of finding himself behind bars because polygyny conflicts directly with our legal system.

Moreover, the practice is counterproductive in a society based on a cash economy—because the more wives a man has, the more money he needs to support them. As a corollary, more wives mean more children, who require more visits to the pediatrician, Barbie dolls, hockey sticks, bicycles, swimming lessons, frozen pizzas, and eventually college tuition—all of which put additional strains on family income. In short, little in the American cultural configuration would lend support to the practice of polygyny. However, if we view polygyny within its proper cultural context, we find that it is not only not immoral, illegal, or irrational but also probably the most logical marital form that could be adopted. An ethnographic example of a polygynous society is clearly required. Although literally hundreds of cultures could be used to illustrate the point, I have selected the traditional Kikuyu of East Africa because they are the people with whom I lived for thirteen months. For the Kikuyu, as is the case for many other peoples of the world, polygyny is the ideal marital form. Unlike American culture, the Kikuyu cultural configuration contains a number of traits that tend to support polygyny and make it a viable marital alternative. First, the traditional Kikuyu economy is based on subsistence agriculture, which as practiced in fertile Kikuyuland, is a relatively efficient means of livelihood.

A single Kikuyu farmer can produce sufficient food for himself and several others. But the more hands contributing to the family farm, the better off economically the whole family would be. Thus, viewed from an economic perspective, it makes sense for the Kikuyu man to want more than one wife because the acquisition of new wives and children enhances the economic well—being of the household. Second, the basic social unit of the Kikuyu is the patrilineage, a corporate group of patrilineal kin ranging up to ten generations in depth, the members of which live together on lineage-controlled land. Because all lineage members want to see the lineage grow and prosper, considerable pressure is put on the Kikuyu to contribute male offspring to ensure the group's continued growth.

What better way is there to increase one's chances of having male offspring than by maximizing the number of wives? Third, the Kikuyu system of social status is based on the size of one's household, not on the household's material wealth. Simply put, prominent men are those with the greatest number of wives and children. Moreover, Kikuyu women traditionally lent support to the practice of polygyny, for it is not unusual for Kikuyu wives to encourage their husbands to take additional wives to enhance the status of the household. Like their American counterparts, no Kikuyu woman wants to be married to a "nobody." Fourth, polygyny as a marital form tends to be encouraged by the Kikuyu religion, one of the fundamental features of which is the belief in ancestral gods. When a prominent male Kikuyu dies, he is not buried and forgotten but actually elevated to the status of deity, and he becomes an object of worship for all living family members.

If his family consists of a single wife and child, he cannot expect to have much of a religious following. However, the larger his family (wives and children), the greater the number of people worshiping him. It would be possible to suggest other explanations of why polygyny fits into Kikuyu culture. The important point, however, is that any cultural item—be it a learned behavioural response, an idea, or an object-must be viewed as a component of the total cultural system in which it is found. When items are wrenched from their proper cultural context and viewed from the perspective of another culture (that is, ethnocentrically), meanings and functions become distorted, and the true nature of the item is at best imperfectly understood. But when we view a cultural item from within its proper or original cultural context, we have a much better chance of seeing how it logically fits into the integrated cultural system of which it is a part.

By doing so, we obtain a fuller understanding of how the culture functions. The notion of integrated culture helps us to better understand why culturally different people think and behave the way they do. However, we should avoid taking the concept too literally. To assume that all cultures are perfectly integrated, we would have to conclude that every idea or behaviour is both absolutely rational and morally defensible, provided that it performs a function for the well—being of the society. However, believing in the general validity of the integrated nature of culture does not require that we view all cultures as morally equivalent; that is, not all cultural practices are equally worthy of tolerance and respect. Some practices (such as the genocide perpetuated by Stalin, Hitler, or the Bosnian Serbs) are morally indefensible within any cultural context. To be certain, cultural anthropologists have sometimes been overly non-judgemental about the customs of people they study.

But, as Richard Barrett has suggested, "The occasional tendency for anthropologists to treat other cultures with excessive approbation to the extent that they sometimes idealise them, is less cause for concern than the possibility that they will misrepresent other societies by viewing them through the prism of their own culture". If cultures are in fact coherent systems, with their constituent parts interrelated with one another, it follows logically that a change in one part of the system is likely to produce concomitant changes in other parts of the system. The introduction of a single technological innovation may set off a whole series of related changes. In other words, culture changes beget other culture changes. A contemporary example of linked cultural changes is provided by the boom in cell phone usage that has occurred not only in the West but throughout the world.

As recently as the mid-1990s, anyone using a cell phone, which was of the size of a gallon container of milk, on the streets of Chicago would, in all likelihood, have been a wealthy investor who was calling his stockbroker. Today, however, it seems as though there are more people than not walking the streets of our cities with a mini—phone pressed to their ear. One change linked to the cell phone has been the increase in auto accidents caused by multitasking Americans making business calls or chatting with friends while driving to work. This problem is being addressed by state laws prohibiting the use of handheld phones while driving, but two new problems have emerged in some urban areas in the United States: "pedlock" and "ped-rage," pedestrian variations of traffic gridlock and road rage. Accurate statistics are not available, but there is abundant circumstantial evidence to suggest that in some U.S., cities there has been a dramatic rise in auto accidents caused by inattentive pedestrians talking on their cell phones. In fact, the New York City Department of Transportation has initiated alertness campaigns warning cell phone—toting pedestrians of the dangers of not paying attention when crossing the streets. In addition to the dangers involved, the sidewalks of cities such as New York are losing some of their civility. In pre-cell phone days, crowded rush—hour sidewalks were reasonably easy to navigate because most people were looking where they were going and were able to negotiate oncoming pedestrians or those wanting to pass. Today, however, with their minds elsewhere, cell phone—using pedestrians bump into other walkers, confuse others with their public conversations, and accidentally hit other pedestrians with their unrestrained hand gestures.

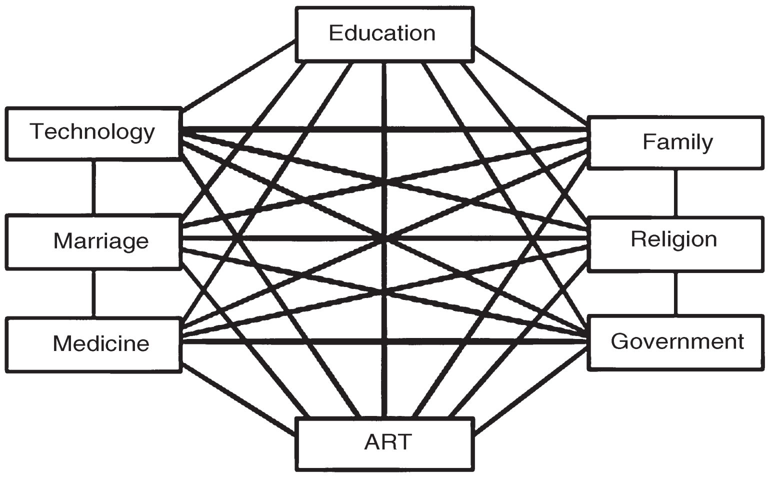


Fig. The Various Parts of a Culture are all Interrelated to Some Degree.

The notion of integrated culture has several important implications for international businesspeople. First, when we understand that the parts of a culture are interrelated, as suggested, be less likely to view foreign cultures ethnocentrically. Rather than wrenching a foreign cultural item from its original context and viewing it in terms of how well it fits into our own culture, as suggested, be reminded to view it from within its proper cultural context.

When we try to understand a cultural feature in terms of its own cultural context, we can begin to see how all cultures tend to be logical and coherent systems. Such an approach leads us to the inescapable conclusion that no cultures are inherently better or worse than any other, only different.

To view cultures as integrated wholes is not a value-laden philosophical rationalisation for any type of behaviour, however bizarre, destructive, or inhumane. Instead, such an approach allows us to understand more fully why a particular cultural item is found in a society, even if it violates our sense of personal morality. An understanding of the inter-connectedness of the parts of culture can also help explain the nature of cultural change.

When systems are integrated, changing only one part of the system is often impossible. Such an understanding would be critical for responsible international businesspeople interested in expanding their markets into areas where their products (and perhaps ideas and behaviour patterns associated with these products) are unknown. Some seemingly harmless commercial products could have profoundly disruptive effects on the very fabric of the society. By knowing the nature of the interconnectedness of the parts of a particular culture, the prudent, humane, and ultimately successful international businessperson will be able to predict the deleterious effects of a product in that cultural environment.

SOME PRECAUTIONS

Through the comparative study of a wide range of cultures throughout the world, cultural anthropologists have developed the general concept of culture and an understanding of those basic traits and processes shared by all specific cultures. We have explored some of these cultural generalisations in an effort to provide a deeper appreciation of the cultural environment of international business.

In addition to the various definitions of culture, we have examined some of the basic characteristics that all cultures share:

- The learned nature of culture,
- How culture influences biological processes,
- Cultural universals,
- The ubiquity of culture change,
- Ethnocentrism, and
- The integrated nature of culture.

It is assumed that an awareness of the concept of culture (what culture is and how it functions) is a necessary, yet not sufficient, prerequisite for an understanding of any particular culture. Whenever dealing with any concept or generalisation, such as the concept of culture, it is important to avoid viewing it in an overly rigid or concrete way. To arrive at statements that hold true for all cultures, anthropologists are operating at a relatively high level of abstraction. Because these generalisations are constructed from literally thousands of cultures in the world, there will be times when generalisations do not always jibe perfectly with reality. In no way does that fact invalidate the usefulness of the concept. They are generally valid descriptions of what happens most of the time. But even when discrepancies appear, the concept is still useful as a stimulant to further investigation. When moving to the level of a specific culture, it is equally important to avoid overly rigid thinking. Anthropological statements about a particular culture are generalisations about what most of the people do and think most of the time. Although cultural norms exert a strong influence on behaviour, they are hardly ironclad propositions that can be used to predict with precision how people will respond in any given situation. Each culture must strike a balance between individual self-interests and the needs of the total society.

Without denying the strong influence that culture has on behaviour, people are nevertheless endowed with free will. To one degree or another, individuals are free to go against their cultural norms, even though most do not. It is indeed the rare person in any society who complies totally with the social rules. As Barrett points out, "There is always a tendency to evade or stretch the meaning of the rules or to otherwise minimize their consequences". As a result, cultural anthropologists make the distinction between ideal behaviour (what society says people should do) and actual behaviour (what people in fact do).

The consequences of this fact are that in any given culture it is likely that individual variations in thought and action can be observed. To illustrate the nature and extent of this diversity, let's look at a familiar scene from our own culture, a high school classroom. In any given classroom, even the most untrained observer will notice students behaving somewhat differently. As the teacher is lecturing, one male student may be flirting with the girl two rows over, another may be doodling, a third student may be working on her unfinished homework for another class, and a fourth may actually be listening intently to extract some meaning from the lecture. Yet despite these individual variations, the students are nevertheless responding in generally similar ways. All remain seated; all are silent; all refrain from doing anything that would seriously interrupt the lecturer.

Although the boy continues to flirt, he is not singing out loud or doing a handstand. The observable variations in behaviour, in other words, are contained within socially acceptable limits. One of the tasks of the anthropologist—or any other cultural observer—is to determine where the normative limits are. It is the description of these variations in behaviours within limits that constitutes the patterns of any specific culture. Moreover, cultures are complex networks of features, some of which change rapidly and others of which are much more resistant to change. Thus, when encountering another culture, some features will appear quite like one's own cultural features, whereas others will seem exotic and bizarre.

Robert Collins, who has written widely on cultural differences between Japan and the United States, describes how difficult it is to sort out the levels of cultural difference between these two countries:

- The initial Level on a Westerner's perception scale clearly indicates a "difference" of great significance. The Japanese speak a language unlike any other human tongue. To compound things, they write the language in symbols that reason alone cannot decipher.... Level Two is represented by the sudden awareness that the Japanese are not different at all. Not at all. They ride in elevators, have a dynamic industrial/trade/financial system, own great chunks of the United States, and serve corn flakes at the Hotel Okura. Level Three is the "hey, wait a minute" stage. The Japanese come to all the meetings, smile politely, nod in agreement with everything said, but do the opposite of what's expected. And they do it all together. They really are different. But are they? Level Four understanding recognises the strong group dynamics, common education and training, and the general sense of loyalty to the family.... Nothing is fundamentally different. Level Five can blow one's mind, however. Bank

> presidents skipping through the streets dressed as dragons at festival time; single ladies placing garlands of flowers around huge, and remarkably graphic, stone phallic symbols; Ministry of Finance officials rearranging their bedrooms so as to sleep in a "lucky" direction; there is something different in the air. And so on. Some Westerners, the old Japan hands, have gotten as far as Levels 37 or 38.

And, finally, we must bear in mind that the concept of culture can take us only so far when attempting to understand the thoughts and behaviours of the many peoples of the world. The cultural model tends to be fairly static and self-perpetuating. Culture is composed of values, ideas, beliefs, and behaviour patterns that are more or less shared by a group of people and that are passed down from generation to generation. Such a model assumes that the people sharing a particular culture are a self-contained and relatively isolated/insulated entity that changes little over time. Moreover, it fails to account for forces from outside the culture that can have powerful influences on how people think and behave.

We can take, for example, the so-called cultures (or subcultures) of the rich and poor in the United States. It is commonly believed that the children of the rich bring with them to elementary school a set of cultural features that contribute to their general success in school and into adulthood. These features include a high value placed on education, a strong work ethic, and a precise reckoning of time, among others.

Conversely, it is generally believed that poor children, lacking these learned cultural values, perform relatively poorly in school and have less success as adults. Such an interpretation, however, while focusing on learned cultural traits, fails to consider the role played by certain societal institutions, such as our educational and criminal justice systems, in determining behavioural outcomes such as school failures or incarcerations rates. To illustrate, all children in public schools since the early twentieth century have been "tracked" based on their IQ test scores, allegedly an accurate indicator of a child's innate, genetically determined intelligence. Those with high IQ scores were given the best teachers, the most demanding curricula, and constant encouragement to maximize their full potential by eventually going to college.

However, after nearly a century of use in our schools, it has been demonstrated that these IQ tests are not a measure of one's God-given, immutable intelligence, but rather an indicator (and an excellent one at that) of how much middle/upper-class knowledge a test-taker has mastered. Simply put, poor children do not score well on IQ tests not because they are less intelligent (that is, have less of a capacity to learn), but rather because they have not been exposed to those things that are routinely experienced by middle- and upper-class children and that are the subject of IQ test questions. Thus, we cannot conclude that poor children have higher dropout rates from school because their culture has failed to teach them the importance of education and hard work. An equally plausible explanation is that poor children, based on their scores from culturally biased standardised exams, are expected to compete on an unlevel playing field.

CORPORATIONS ALSO HAVE CULTURES

Just as societies, tribes, religious communities, and neighbourhoods all have cultures, so too do corporations. Shared values, behaviour patterns, and communication styles all help the employees of a corporation, from the janitor to the CEO, both feel and express a common identity. A corporate culture, in other words, helps ensure that people at all levels of the organisation are pulling together in the same direction. *Successful corporate cultures manage to integrate*:

- Symbols (such as a corporate logo),
- Legends (stories about past successes and failures),
- Heroes (influential managers from the past),
- Communication patterns (language and non-verbal cues),
- Shared values (what the organisation stands for and believes in),
- Patterns of social interaction (expected forms of behaviour between those of different statuses and roles), and
- Shared experiences (such as working together on successful projects).

The process of developing a corporate culture involves a number of distinct activities:

- Identifying common beliefs among employees,
- Gaining consensus,
- Documenting the essential features,
- Making the culture visible to employees on a regular basis, ensuring that the features of the corporate culture support the organisation's goals and objectives, and
- Providing explicit training in the corporate culture for new employees.

All businesses, whether they know it or not, have their own distinct cultures. A problem in the past has been that many business enterprises are not aware of their cultures and, as a result, fail to purposefully make changes in the cultures to align them with their goals and objectives. To illustrate the notion of "corporate culture," let us examine a real, yet anonymous, corporation, composed of less than fifty employees, which provides creative consulting services (marketing campaigns and organisational problem solving) to its much larger Fortune 500 clients.

The company in question, which as suggested, call Solutions, Inc., or SI, has been recognised as one of the most successful creative consulting companies in the United States and has the client list to support it. The SI culture has been very deliberately structured so that all of its component elements support the company's basic mission: that is, creative problem solving.

This corporate culture has the following structural components:

- *Maximize interaction/communication*: Absolutely central to the SI culture is the notion that creativity and innovation is a team sport, not a solitary activity. The best, most creative, ideas are generated when otherwise creative people (that is, those who are curious, passionate, openminded, and willing to take risks) actually bounce ideas off one another and refine mediocre, or even bad ideas, into brilliant ones. The corporate headquarters-located in a renovated warehouse-was purposefully structured to encourage maximum social interaction. There are no walled-off offices or even distinct cubicles separating members of the SI team. Instead, everyone's personal workspace, from the CEO to the most recently recruited employee, consists of a desk and several other pieces of office equipment located in a large open portion of the office. Literally everyone can see everyone else, some can converse in a normal voice without even leaving their chairs, while others might need to walk twenty feet to speak with a colleague. A large informal "living room," a space with comfortable furniture, provides a place for the entire staff to meet for morning informational meetings or informal presentations by outside speakers. The kitchen is a favourite meeting place to discuss ongoing projects over a cup of coffee and some snacks, while there are several rooms, providing separate space for creative sessions, which have doors that can be pulled down at the end of the day to hide the mess. Even the white boards located throughout the building encourage team members to leave messages for one another. Compare this with the supply chain division of a large U.S., bank, the *raison dêter* of which is to cut costs in those goods and services purchased by the bank. When we realise that a 2 cent increase in first-class postage can cost the bank tens of millions of dollars per year, we can appreciate the scale of the savings that the supply chain division could realise if they maximised their creative energies. However, the hundreds of people working in this division, most of whom hold an MBA degree and have offices in a number of different buildings, rarely ever see one another, much less engage in purposeful, creative problem solving. Imagine the creative solutions to cost-cutting they could come up with if they deliberately shared their creative energies and past experiences and applied them to cutting costs across the entire institutional structure.

- *Collaboration*: Social interaction at SI is a necessary, but not sufficient, condition for nurturing the creative process. Not only must colleagues sustain high levels of interaction, but that interaction must be collaborative, cooperative, and largely selfless. The emphasis needs to be on team building, sharing, and developing a sense of community. Individual team members are not motivated primarily by personal achievement and reward, but rather by solving the team's problem as effectively and creatively as possible. Group goals take precedence over the goals of any individual member, and interdependence is more highly valued than independence or the pursuit of individual goals. This is a highly un-American modus operandi, because it asks people to keep their egos, self-interests, and control needs in check and to derive satisfaction from making a contribution to the wider group. The traditional mode of creative problem solving in the United States involves a number of employees locked away in their offices trying to solve the problem through the sheer force of their individual intellects. SI team members, by way of contrast, have developed a more collectivist orientation that emphasises teamwork, altruism, and maintaining strong social ties and obligations to team members.

- *Diversity:* Most organisations in the United States, particularly large ones, strive for consistency, standardisation, and agreement, largely from the misleading assumption that the elimination of divergence/ diversity automatically results in efficiency and success. This traditional, twentieth-century, view of organisational structure assumes that contradictions are to be first prioritised, and then eliminated, so that everything will run smoothly. We have all known managers and executives who need their subordinates to agree with their decisions, tell them they are doing a terrific job, and avoid challenging their authority. While this may be organisationally neat and psychologically comforting, it is stifling, stagnating, and, over the long haul, counterproductive. By way of contrast, the SI corporate culture is based on the premise that the very lifeblood of its organisation requires that it embraces diversity, multiple perspectives, different communication styles, and dissenting opinions. The SI team is recruited and organised on the principle of diversity, not because it is the politically correct thing to do, but rather because it is essential to the process of creativity and problem solving. Surviving, and indeed thriving, as a creative consulting organisation in the twenty-first century does not depend on everyone seeing eye-to-eye with one another. In fact, the literature suggests that it often depends on just the opposite-namely, the extent to which team members disagree with one another and are constantly looking for contradictory or alternative data. While it is true there must be agreement among team members on certain core values, modes of operating, and strategic goals, the most creative solutions are most likely to evolve in an environment of varying perceptions and respectful dissension. Thus, a central tenet of the SI corporate culture is that rather than trying to eliminate contradictions and differences, the company that manages, balances, and uses its internal diversity is the one in the best position to renew itself, maintain high levels of creativity, and remain sufficiently flexible and adaptable in the very fast moving world of the twenty-first century. SI is very deliberate about recruiting new team members who bring with them different educational backgrounds, work experiences, worldviews, ways of thinking, and general life experiences. The SI team includes people not only with diverse backgrounds in functional areas such as business strategy, organisational behaviour, brand management, and industrial design, but also from diverse fields such as education, fine arts, theatre, and the social sciences. But SI team members also take on different "handles" or nicknames (such as "The Closer," "Court Jester," "Cattle Prod," and "Rain Maker") designed to encapsulate the unique traits and contributions each brings to the organisation. These pet names, used instead of job titles, enable team members to contribute to the company's overall organisational success by serving as a constant reminder of the individual strengths each brings to the workplace. That every team member has the opportunity to create his or her own moniker, displayed prominently on the company's web site, is an affirmation of the organisation's commitment to diversity.

- *Positive turbulence*: The fall of the Berlin Wall in the late 1980s is generally seen as the beginning of the new age of globalisation, driven by rapidly spread free-market capitalism, lowering of tariff barriers, privatising enterprises, and deregulating national economies. At the same time, the development of digitisation, satellite communication, fibre optics, and the Internet has brought about a simultaneous revolution in information technology. Before the age of globalisation, business leaders were able to get along with a traditional mindset, consisting of a narrow perspective based on one's own functional area of expertise, general resistance to change, individual mastery of knowledge and skills, and top-down hierarchical structures. However, a perquisite for success in the rapidly changing business environment of the twenty-first century is a more global mindset, composed of a broad, cross-functional perspective, seeing change as an opportunity rather than a problem, emphasising teamwork rather than individual mastery, and appreciating the need to flatten out hierarchical, bureaucratic structures. Several decades ago, business leaders tried to cope by imposing order, structure, and hierarchy within their organisations. Today, the only way to survive in the global economy is to embrace change, devise new products and processes, build functional teams, be willing to veer off in new directions, reduce the social distance between those at the top and those at the bottom, and remain flexible. While this new "global mindset" is messy, rapidly moving, unpredictable, complex, frenetic, and often anxiety producing, it is absolutely necessary for generating the creativity and innovation needed to stay competitive. SI operates on the principle that a moderately chaotic, untidy, and hectic environment is not something to be eliminated or tamed, but rather managed effectively, because it is where creativity thrives and innovations are incubated. This is what Stanley Gryskiewicz of the Center for Creative Leadership refers to as "positive turbulence." The culture at SI not only tolerates positive turbulence, but actually takes deliberate steps to increase it, because by embracing moderate confusion and divergent thinking, team members are able to generate more and richer solutions to business problems.

- *Broadening knowledge and experience*: Perhaps the single most important strategy for developing positive turbulence involves being receptive to, and willing to process, new information from a wide variety of sources. The thinking at SI is that the more information a person is exposed to, the greater are the opportunities to see the interconnections between seemingly unconnected phenomena. By deliberately exposing oneself to as many different types of information as possible, we are able to imagine how, for example, a letter on the Op-Ed page of the Washington Post could help solve a client's marketing problem. One mechanism for broadening one's knowledge is to bring in experts (as consultants) from fields other than those of the core interest of the business. Periodically, the entire SI staff will participate in an informal, free-wheeling discussion with an outsider such as an architect, a family therapist, a cultural anthropologist, or a professional musician. All of these guest discussants, while representing expertise in vastly divergent career areas, are invited to talk about creativity from their unique professional perspectives. While in many corporations such discussions might be seen as a frivolous waste of time, the leadership at SI believes that new, creative, and productive ideas can be generated, refined, and implemented when team members are exposed to seemingly unrelated pieces of information and asked to make the connections between them and their own immediate professional concerns. To illustrate, Benjamin Zander, the conductor of the Boston Philharmonic, is a perfect example of how a world-class musician can have an important impact on creative consultants from SI. In the book The Art of Possibility, co-authored with his wife Rosamund Zander, Benjamin Zander talks about the need to see and understand the overarching flow and structure of a piece of classical music. By rising above a piece of music (a complex collection of notes on a piece of paper) to see the overall structure of the whole piece, we can see and hear new meaning, a meaning that is very different when seen from ground level (where we are looking at individual notes or small groups of notes). What can an SI creative consultant take away from such a discussion on the structure of classical music? As in music, the understanding and appreciation of corporate organisations (such as those clients for which SI solves strategic business problems) are enormously enhanced when we take an "aerial view" of the total structure, rather than concentrating on a single element or even a small group of elements. And it is only when the essential shape (structure) of both the piece of music and the corporation are revealed that true understanding can occur and, consequently, the maximum number of creative solutions can be generated. This is just a single example of how an expert from a field as different from corporate management as symphony conductor can offer different insights and ways of perceiving that can increase creative thinking and problem solving within a corporate setting. In addition to bringing in outside experts from different fields, there are other ways by which a company can encourage its team members to broaden their experiences and knowledge base. These include encouraging reading and sending team members to conferences outside their fields, establishing and maintaining (electronically) networks of like-minded "creatives" throughout the world, awarding "enriching sabbaticals" to team members, encouraging foreign assignments, and even swapping functional roles within the organisation.

- *Flat organisational structure*: SI understands that not only is creativity a team sport (to the extent that it is both interactive and collaborative), but it thrives in an environment that is flat or as "status-less" as possible. Hierarchy within the team, in other words, can be a major impediment to the creative process. When the boss is always right, and ideas flow from the top on down, creativity and innovation will most likely be stifled. The best way to subvert a creative brainstorming session is to let the boss be the first to speak, because, when this occurs, other team members prejudge their own ideas to avoid being too different from the boss. But if the hierarchy is flattened, self-editing will be minimised and people will be free to come up with a wide range of wacky ideas, some of which can be potentially brilliant. It takes deliberative effort for an organisation to achieve a flattened hierarchy. Visitors to SI will not hear comments from team members, such as "Oh sure, if I had a six figure salary, I too could come up with some creative ideas." Clearly, SI has found the secret of creating a status-less environment. That both the company president and the CEO do not have large, enclosed, corner offices (a traditional symbol of high organisational status) conveys the message that all ideas are equal and potentially brilliant. Moreover, a visitor to an SI brainstorming session would find it difficult, if not impossible, to identify the group leader, because all team members have the freedom to express "off-the-wall" ideas. Clearly, SI has been very purposeful in building and maintaining a strong corporate culture-that is, a set of norms, values, and behavioural expectations that are strongly held and widely shared throughout the organisation. Both the popular and the scholarly literatures in recent years have supported the direct relationship between strong corporate cultures (such as that described for SI) and high firm performance. Specifically, those studies have shown that companies with strong corporate cultures have three distinctive advantages:
  - An enhanced ability to coordinate and control the organisation from within,
  - An improved goal alignment between the firm and its employees, and
  - An increase in employee effort.

Having a well-defined and explicit corporate culture not only increases efficiency, it also contributes to overall competitiveness. When a formerly domestic corporation decides to globalise its operations, it needs to pay attention to globalising its culture as well.

A corporate culture that works well for employees in Atlanta may need to be at least partially redefined by the national culture of Indonesia, where it is now conducting some of its manufacturing.

This certainly does not mean that a corporation should jettison its corporate culture when operating abroad. Rather, it means that hitherto domestic companies need to modify their cultures to accommodate local cultural realities. It is, in other words, not possible for a corporation to export its culture wholesale to Indonesia and expect local workers to check their own cultures at the door each morning. Successful MNCs, as they have expanded their overseas operations, have developed somewhat localised versions of their original corporate cultures.

When Wal-Mart, the largest retailer in the United States, opened its first discount store in Germany, it found that some features of its corporate culture (first developed in Bentonville, Arkansas) were not warmly embraced by their German employees. Workers had no difficulty with company cheers such as "Who's Number One? The Customer!" However, they balked at applying Wal-Mart's "ten-foot rule," which required all employees to greet any customer within a ten-foot radius.

This rule is not enforced among Wal-Mart employees in Germany because both employees and customers place a high value on their privacy when they are shopping. Thus, Wal-Mart had the good sense to realise that it would be counterproductive to allow its corporate culture to supersede the local German culture.

Instead, Wal-Mart permitted a local variation of the corporate culture that was more compatible with local German culture. What is important to realise is that neither version of the corporate culture sacrifices the overarching cultural principle that the "customer is number one!" Philippe d'Iribarne provides two detailed case studies (one of a combined Italian-French microelectronic company headquartered in Geneva and the other a French food company located in Mexico) showing how Western corporate cultures can promote supportive communities of highly motivated workers by building upon deep-seated local cultural values. In Morocco, Islamic norms and values were combined with Total Quality Management values to transform SGS-Thomson's factory culture, whereas in Mexico, norms and values regarding family and the pursuit of a higher moral purpose were combined with the traditional corporate model of Danone of France. In both cases, it was not the imposition of a foreign corporate culture over local cultural values. Rather, organisational excellence was achieved by integrating local cultural values and behaviour patterns into the Western corporate culture. These two case studies demonstrate the fact that cultural differences are not *de facto* obstacles to creating efficient production facilities.

PROFITING FROM GLOBAL EXPANSION

Expanding globally allows firms both large and small to increase their profitability in a number of ways not available to purely domestic enterprises.

Firms that operate internationally have the ability to:

(1) Earn a greater return from their distinctive skills or core competencies,
(2) Realize location economies by dispersing individual value creation activities to those locations were they can be performed most efficiently, and
(3) Realize greater experience curve economies, thereby lowering the costs of value creation.

For some companies international expansion represents a way of earning greater returns by transferring the skills and product offerings derived from their *core competencies* to markets where indigenous competitors lack those skills.

Definition: Core competence refers to skills within the firm that competitors cannot easily match or imitate. These skills may exist in any of the value creation activities of the firm. Production, marketing, R&D, human resources, general management, *etc. E.g.*, Mc Donald's ahs a core competency in managing fast food operations, Toyota can produce high quality, well designed cats at a lower delivery costs than any other firm's in the world. For such firms' global expansions is a ay f further exploiting the value potential of their skills and the product offerings by applying those skills and the product s in larger market.

LOCATION ECONOMIES

Due to national differences, it pays a firm to base each value creation activity it performs at that location where economic, political, and cultural conditions, including relative factor costs, are most conducive to the performance of that activity (transportation costs and trade barriers permitting). This strategy is referred as focusing upon the attainment of *location economies*.

MNEs that take advantage of different locational economies around the world create a *global web* of activities. In the worldwide market, a local economy may have some specific locational advantages. For example, Silicon Valley may have a location specific advantage in a technological work force. Galveston, Texas has a port location that serves the U.S., southwest, (although it lost much of its shipping trade when the city of Houston deepened its shipping channel.)

Definition: locational economies are the economies that arise from performing a value creation activity in the optimal location for that activity, wherever in the world that might be.

E.g.: General Motors's Pontiac is marketed widely in United States, the car was designed in Germany, key components were manufactured in Japan, Taiwan, Singapore, the assembly operations was performed in South Korea, and the advertising strategy was formulated in Great Britain.

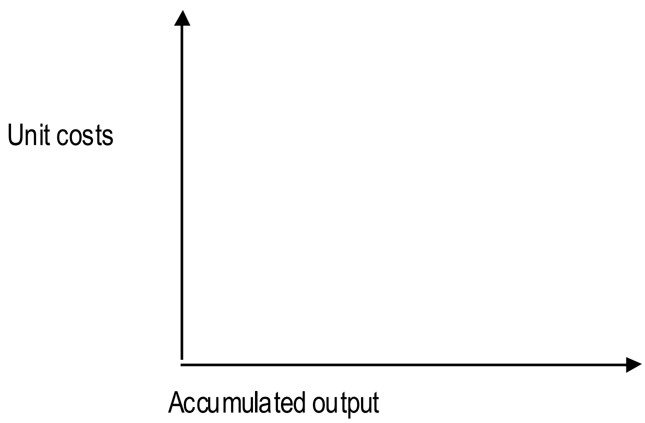
The management focus on McDonald's shows how a successful U.S., firm could export its core competency in managing fast-food operations into far reaching areas of the world.

Other implications: New Zealand may have a competitive advantage for automobile assembly operations but due to high transportation costs would make it an uneconomical location for them. U.S firms are now shifting their production form Asia to Mexico due to less transportation costs and trade barriers. Mexico has three distinct advantages over many Asian nations such as low labour costs; its proximity to large US market reduces its transportation costs; NAFTA has removed many trade barriers among Mexico, US and the Canada.

EXPERIENCE CURVE ECONOMIES

Definition: experience curve is the systematic reductions in the production costs that occur over life of a product.

A number of studies show that a product's production costs decline by some characteristics about each time accumulated output doubles. *E.g.*, in aircraft industry, where each time accumulated output f airframes was doubled, unit costs typically declined to 80 percent of their previous level. That is the production costs of the fourth airframe would be 80 percent less of the production costs for the second airframe, the eighth airframe's production costs is 80 percent less of he fourth's, the sixteenth's airframe costs is 80 percent less of the eighth's and so on.



THE EXPERIENCE CURVE

The Figure shows the experience curve that normally allows costs to be reduced with additional output.

This is due to two reasons: learning effects and economies of scale.

Learning effects: refers to the cost savings that come from learning by doing. Labour productivity increases as individuals learn the most efficient ways to perform particular tasks. Management also typically learns how to mange the new operation costs efficiently over time. But it has been suggested that learning effects are important only during the start up period of a new process and that they cease after two or three years. After that, any decline in the experience curve is due to economies of scale.

Economies of scale: refers to the reduction in unit cost achieved by producing a large volume of a product. This is mainly due to the ability to spreads fixed costs over large volume.

By building sales volume more rapidly, international expansion can assist a firm in the process of moving down the experience curve. By lowering the costs of value creation, *experience economies* can help a firm to build barriers to new competition.

PRESSURES FOR COST REDUCTIONS AND LOCAL RESPONSIVENESS

Firms that compete globally typically face two types of competitive pressures: pressures for cost reductions, and the pressures for local responsiveness in the industry in which it competes.

These competitive pressures place conflicting demands on firms.

PRESSURES FOR COST REDUCTIONS

Responding to cost pressures requires that a firm try to lower the costs of value creation by mass-producing a standard product at the optimal locations worldwide. Pressures for cost reductions are greatest in industries producing commodity type products where price is the main competitive weapon. Pressures for cost reductions are also intense when major competitors are based in low cost locations, where there is persistent excess capacity, and where consumers are powerful and face low switching costs.

PRESSURES FOR LOCAL RESPONSIVENESS

Pressures for local responsiveness arise from differences in consumer tastes and preferences, differences in national infrastructure and traditional practices, differences in distribution channels, and host government demands. Pressures for local responsiveness imply that it may not be possible for a firm to realize the full benefits from experience curve and location economies. The management focus on tailoring cars to the USA market reflects how foreign automotive producers have had to change their product offerings to appeal to the American market. But, Theodore Levitt (Harvard Business school professor) has predicted emergence of enormous global markets for standardized consumer products. Levitt cites the worldwide acceptance of mc Donald's hamburgers, Coca-Cola, Levi's Strauss blue jeans and Sony televisions, which are sold as standardized products as evidence of increasing similarity of global marketplace.

THE GLOBAL TRADING SYSTEM

The major objective of this chapter is to describe how political realities have shaped, and continue to shape, the international trading system.

While in theory, many countries adhere to the free trade, in practice most have been reluctant to engage in unrestricted free trade.

Free trade environment in which a government does not attempt to restrict what its citizens can buy from another country or that they can sell to another country. However, in reality this does not happen due to political interferences known as trade policies formed by government.

For example, the USA continues to restrict trade in textiles, sugar, and other basic products in response to domestic political pressures, in addition to technological and militarily sensitive products.

INSTRUMENTS OF TRADE POLICY

- Tariffs and
- Non-tariff barriers:
  - — Subsidies
  - — Import quotas
  - — Voluntary export restraints (VER)
  - — Antidumping policies and,
  - — Administrative policies.
- Tariffs are one of the oldest and easiest to recognize and regulate, and simplest forms of trade policy.

Definition: a tariff is a tax levied on imports. Tariffs fall into tow categories. Specific tariffs and ad- valorem tariffs.

Specific tariffs specify an amount that will be levied on each unit of imported good. ($10/ton of tea or $5 on a barrel of oil.) Ad valorem tariffs are based on a percentage of the value of the imported good (5% of the import value).

Anyone who pays property taxes has seen the tern ad valorem (an amount based on the value of the property). Tariffs raise the cost of foreign goods relative to domestic goods, making the consumer pay more.

Tariffs benefit the government due to the revenue raised, benefit domestic producers since they can charge higher prices, and hurt domestic consumers. Tariffs are unambiguously pro-producer and anti-consumer. They reduce the overall efficiency of the world economy — a protective tariff encourages domestic firms to produce products at home that in theory could be produced more efficiently abroad.

- *A subsidy:* definition: is a government payment to a domestic producer. Subsidies take many forms including cash grants, low interest rate loans, tax breaks, and government equity participation in domestic firms. Subsidies help domestic producers in two ways:
  (1) Subsidies help domestic producers compete against low cost foreign imports, and
  (2) Subsidies help domestic producers gain export markets.

Subsidies clearly benefit domestic producers, and damage foreign producers. Domestic consumers, however, must pay for subsidies, usually through taxes. When subsidies are in the form of price supports (*i.e.*, often in agriculture), domestic consumers may also pay directly.

Subsidies generally help support inefficient industries and keep productive assets employed in industries that do not make most effective use of these assets.

According to official figures, the government subsidies to industry in most industrialized countries amount to between 2 percent and 3.5 percent to the value of industrialized output.

- An import quota: Definition: is a direct restriction on the quantity of some good that can be imported into a country. Usually, governments regulate import quotas by issuing import licenses for the import of some specific quantity of goods to a group of individuals or firms.
- A voluntary export restraint (VER) may have the same effect as a quota.

Definition: VER is the quota on trade imposed by the exporting country, typically at the request of the importing country.

In a VER, another country or countries agree not to export more than a certain quantity to another country or countries. VERs is usually only enacted when it is feared that a more restrictive tariff or quota will be levied unless exports are "voluntarily" reduced. In other words, the threat of retaliation encourages compliance.

Import quotas and VERs benefit domestic producers and harm domestic consumers. They can also even help foreign producers, as foreign producers can raise the price they charge for the limited supply they can sell, and take the difference as additional profit.

- Local content requirements specify that firms must produce some portion of a good domestically. The purpose of a local content requirement is usually to aid the formation of domestic industries, to keep manufacturers from switching to foreign suppliers, or to keep foreign firms from setting up "screwdriver plants." where imported manufactured components undergo simple assembly in order to avoid some other trade restriction on the importation of the fully assembled product. Domestic suppliers benefit, and domestic consumers must bear the costs. Local content regulation may mean the formation of strange bedfellows in certain markets. For example, the market for automobiles in Argentina is too small to support local production by all the competing firms. Therefore, the firms agreed to let one of them build engines in Argentina for all the vehicles assembled there.
- Antidumping polices: Dumping occurs when a country sells goods in another country below cost or below fair market value. Dumping is a way firms can unload excess production into foreign markets. When plants must operate at a certain level regardless of domestic demand, the producer may find it appropriate to export some portion of the factory's output abroad. At times dumping may also be done for predatory reasons, hoping to drive other producers out of the market, and subsidizing foreign sales with higher domestic prices.

Antidumping policies are assigned to punish foreign firms that engage in dumping. These are designed to prevent dumping from occurring, or by instituting import taxes in order to bring prices of "dumped" goods back up to fair levels. The ultimate objective is to protect domestic producers from unfair foreign competitors. Administrative policies: these are bureaucratic rules that are designed to make it difficult for imports to enter a country. A wide range of administrative barriers can be enacted. Some say the Japanese are the masters of this trade barrier. In recent years Japan's formal tariff and non tariff barriers have been he lowest in the world. However, critics charge that their informal administrative barriers to importsmore than compensate fro this. Taking so much time to inspect goods that they spoil or setting down specific regulations on "product standards" that are very expensive to meet.

CERTAINTY, UNCERTAINTY, RISK— FEATURES OF THE BUSINESS ENVIRONMENT

The economical theory and the practice demonstrated that, an essential attribute of the managerial activity is represented by the decision adoption, force founded in all management functions; which means to elect from a variety of possible actions, taking in consideration also the business environment and the within existing conjuncture, that one, which is considered as being the most rewarding in order to achieve the proposed objectives. An international business is carried on in extremely diverse external environments, and in variable conjuncture conditions. The performance managers are those who have the capacity to fructify the favourable opportunities and when they confront with unfavourable ones to limit as much as possible the losses.

From this point of view, the adopted short or long run decisions, for the moment carries the mark of three situations, in which the decedents may found themselves:

- Decisions taken in certainty conditions,
- Decisions taken in uncertainty conditions,
- Decisions taken in risk conditions.

Under the impulse of the need of conceptual synthesises and practical operability, there exists the tendency to define the three statuses as concise and relevant. The adopted optic was mainly influenced by the work of Dudian, in the sense of capturing the successive stages of conceptualisation of the terms, in time, space and approach perspective.

CERTAINTY

The steps in order to define the status of certainty in business, starts from a rhetoric question:

- From the multitude of uncertainties that accompanies our existence as human beings can we identify also certainty?

In the process of scientific knowledge, the historical approach is uncontestable. In its specific perception forms, the state and need of absolute certainty founds its origins from the appearance of the mankind and of first human communities. The fear from natural catastrophes, illness and death, led to the certainty of founding a support. This support was found in religion, based on fear and the image of supernatural beings existence, gods, which have the power to decide upon the individuals' fate and destiny. In order to obtain of any kind of certainty, that nothing bad won't happen, through diverse forms of acts and sacrifices, the primitive humans believed that the could favourably influence the state of spirit of these supernatural beings.

Consequently, this state of certainty was a conditioned one. Next step was represented by the need to distinguish between good and bad, to know with certainty what is or isn't moral. In this way appeared the faith in God. This is one of providence, he is who decide, protect, repay and punish. It has appeared a new gradate for the concept of certainty. Nothing is randomly, but decided of God, as repay for the acts of people. We can ascertain that the dependency is replaced with interdependency. The divine decision is determined by the individual moral conduct and not by the material sacrifices. Specific gradates, relieved by the certainty approach, prom religious perspective, the idea of some causality reports from cause to effect is withheld.

The causality report, having its pylon in religion, is founded also in philosophy. Thus Greek philosophers affirmed that, with the exception of the Primary Cause, any other thing is of cause-effect type. Differenced by them, the antic Asian cultures have never developed the idea of causality. The positive science approach, and mainly of the mechanics, were not able and can't give a trenchant answer to the relation determinism and indeterminism. The discovery of quantum phenomenon re-launched the controversy.

To causality was opposed again by indeterminism, which affirms that in nature there is nothing besides induced hazard, which existence is determined without any trace of doubt. The quantum physics proved that, in nature there occurs random processes and phenomena, which are not submitted to cause-effect type regularity.

Certainty in business. In the conditions of private property and existence of market economy, liberty of economical initiative is the result of a well defined motive and goal. Because, any action supposes length, between the moment of decision adoption and the manifestation of its effects, there may appear influences which determine the sense of motion, to ascertain if we act or not in a status of certainty.

From this perspective, we appreciate that in businesses, including the international ones, there exists and manifests the status of certainty. Certainty represents that status, in which the decedent knows in the moment of taking the decision with absolute confidence the consequences of the adoption of an alternative from the existing given variants. This affirmation can be argued in particular cases, not generally.

UNCERTAINTY

Even if in the domain of the businesses can be identified situations of certainty, in the most cases, generally the human behaviour and consequently the economic one, does not submit to certain regularities, but rather they are uncertain, unforeseeable. In such a context of reality perception, scientific investigations were oriented towards the elaboration of economical models based on uncertainty. The forerunner of this approach is the classical school. The most important element to keep in mind about uncertainty is that is based on the state of certainty. Hence classical understood under the concept of uncertainty, a probabilistic type certain future.

The introduction of probabilistic type calculations are made from these points of view:

- Objective and subjective probability,
- Having common components,
- But also meaningful differentiations.

The objective probabilistic approach starts from calculations regard what will happen in the future, from the perspective what has happened in the past. In this way, future events can be anticipated probabilistically. The decedent has the possibility to choose, from the perspective of the past, a more advantageous alternative rather than other one, because of the randomly game. In classic point of view, this logic does not guarantee the absolute success, only a greater possibility of success. What is the case of the irreproducible events through statistical series observation? The question receives more answers in the time.

Such like this appeared the subjective probabilistic interpretation. In conformity with this, the interpretation of future events, not only them which results from experience, rather in subjective perceptions of the decedent. Through subjective probability there is understood a prediction representing the level of trust given by a person to anticipation.

The estimation is pure personally and presumes, in order to have a sense, an implicit rationality from the side of whom realises it. A try of linkage between objective and subjective probability was made by Keynes, through which was named logical probabilistic, grounded on both experience and individual interpretation.

He defined a probabilistic relation, or argument, which characterise the way in which a person interprets the available information from the surrounding world. In order to clarify the concept of logical probability, we consider two affirmations, A and B, and between there is an intuitive linkage, but can't be described for sure certainty the nature of this relation. So, let P be the estimation of the probability relation between A and B, P= A/B. If P can be evaluated numerically, based on a series of statistical data, will mean that we refer to the objective probability from the classical thought.

The same thing will happen, if through continuous information assimilation, subjective probability equals one, becoming certain. From the Keynesian point of view, in both cases we can't talk of uncertainty, because to the relation between A and B, there can be attached a numeric probability. If a sequence of events can be foreseen with the help of numeric probability, than future will remain probabilistically foreseeable and the place of uncertainty is taken by risk. Unlike the uncertainty, risk is characterised by the probability to describe a probability law for accounted results waited to be obtained after the action.

Incertitude appears only when the nature of the probability relation remain unknown. In order to speak about uncertainty, must be concomitantly united the next conditions:

- P can't be numerically described,
- Because there is no relation of any kind,
- Which could allow the numeric calculation of the probability.

After Keynes, in economics and mainly in the domain of investments, the majority of the situations are uncertainty. Confronted with uncertainty and risk, economic agents must elaborate forecasts based on own anticipation. In classical vision based on risk, anticipations are rational ones, taken upon perfect information supplied by the market. From Keynesian point of view, besides rational behaviour there exists a conventional behaviour too, adopted in conditions of uncertainty reduced to risk.

In such conditions, individuals are forced to imitate the others in their options and choices. Shortly, the elaborated progressive anticipations are confronted between them, changed rapidly as function of certain information.

As next step, the certain information will arrive together with an "existing reality", as an outside benchmark named convention. The vision of Keynes over uncertainty is similar to the Austrian subjectivism, in which uncertainty is a radical one, synonym with ignorance.

The Austrian subjectivism is estranged from Keynes, remaining a purely individualistic theory. In conformity with this theory, economy is composed of a multitude of independent and reunited individual actions, through processing imperfect information, hardly and difficultly supplied by the market. Anticipations are purely subjective, and the market remains the only one mechanism to merge them, but this will never lead to an emergent effect.

Resuming the points of views, the literature regarding uncertainty state that:

- The classical school reduces incertitude to risk. The market supplies information to the economic agents, presumptive perfect ones, which permits to adopt alternative actions with the highest probability to be good or best.
- The Keynesian uncertainty adds to the market mechanism a conventional behaviour, as necessary instrument to a better understanding of anticipations.
- Austrian subjectivism considers the universal market mechanism, impossible to avoid, of which collide all individuals confronted with absolute uncertainty.

Regards our position, we make a difference between certainty, uncertainty and risk. We join the opinion of which define in essence uncertainty as that situation or state, in which the decedent knows in the moment of the decision adoption, the situation and problems, with which he will confront in the future following the moment of his decision, but does not know the probability of their manifestation and mainly, the obtained results, grounded on diverse acceptable alternatives.

RISKS

Nor the definition of this problem is simple or without controversies. The first problem is that risk is situated in the perimeter of uncertainty and from here follow the question.

- What kind of uncertainty presumes risk?

As starting point, the notion of risk may suggest the idea that it is about an uncertainty reduces to risk, and so appears the possibility to express numeric the probability due to risk. In such a problematic context, as first step, risk is represented as the situation in which the decedent does not knows with precision the results of a solution, but anticipates the probability with which various effects will manifest.

Problematically, it is marked a business flux:

- Who assumes a higher risk may win more or loose more; who assumes a lower risk may win less but also can loose less.

The problem is option and choice of one or another alternative. Taking in consideration, that the most part of the decisions taken at internal or international level are grounded and applied in practice in conditions of uncertainty and risk based environment; the problems regarding risk can be seen and analysed from more point of views.

With the whole diversity of expressed opinions, the reference domain takes in consideration three aspects:

- The definition of risk,
- Classification of risks, and
- Way of attenuation of the negative effects of the appearance risks.

Regarding the definition of the concept, we take in consideration the further opinions from the specialty economic literature. At the first sight, a risk represents "the possibility to obtain favourable or unfavourable results in a future action expressed in probabilistic terms". Approached in probabilistic terms, the results and effects of a process or decision can be appreciated a priori, through deduction, or aporteori through empiric measures. In the case of a priori method, the decedent establishes the probability of appearance of a phenomenon through logical deduction, without being needed to make appeal to the past experience.

The empirical measuring is based on the registered experience regarding the form of the past data. In order to be ale to establish the probability of appearance of a phenomenon, it is necessary to carry out the conditions of representative number of observations in order to guarantee stability, the number of iterations in the analysed sample and the independency of its appearances. Beginning with these conditions, the probability of appearance of a process or phenomenon can be calculated, and the plausibility of result may be considered as a risk. Another opinion shows that, "economic risk represents an alternative - the other being the chance- of the finalising conditions of a commercial or financial business". Therefore, risk is cause of unfavourable results, what can materialise in additional costs, losses, the impossibility to turn to account of the favourable, but uncertain conjuncture. The chance is the factor which make possible to obtain or amplify some favourable results. Both alternatives—risk and chance—are based on objective or subjective factors and causes, the majority foreseeable with a given level of precision. The chance is the wanted alternative, but risks must to be known and evaluated before, than established necessary protection measures.

There exist some other explications too:

- " Risks represents the possibility to reach danger, to have to confront a trouble or support damage, a possible danger. To risk means to take in peril your life, honour, to expose to a possible danger, to participate to an unsure action regarding luck, to dare, to venture. The term risky is used when it is about a situation or action full of risks, exposed to danger, unsure, perilous".

Risk can also be defined as "the possibility of appearance of a loss in the economical business (export, import, cooperation), as consequence of realised unforeseeable events and phenomena". From legal perspective, risks, in international economical exchanges, represents prejudges determined by fortuitously circumstances.

There are distinguished:

- Risks of things,
- Contractual risks,
- Commercial risks and
- Assured risks.

In the same opinion, commercial risks are patrimonial consequences of tardy or inadequate execution or non-execution of an obligation stipulated in an international commercial contract, for which the prejudged creditor can't call to book the debtor. Commercial risks can be determined by phenomena with economical nature: as the non-execution of the delivery or the price payment obligation because the bankruptcy of the debtor; with political nature: the blockage or closed of boundaries of the debtors' country; or natural phenomena: as earthquake, flood; phenomena interfered between the moment of signing the contract and till the expiration of the obligation, of which put back totally or partially the execution of the contract. A more particular case, the currency exchange rate risk, refers to the possibility to register losses or gains from an export-import transaction or from any other kind of action which implies external payments, because of the depreciation or appreciation of the contract currency. This is defined by some authors as, the probability to produce loses from the modification of the exchange rate, so as being an average value; and by others as the concept or fluctuations, reflecting the uncertainty to produce modifications in the exchange rate and value of this modification.

Because the modification of the exchange rate may produce for the same economic agent, a loss or a gain, the currency exchange rate risk is considered as part of the speculative risks, not as member of the pure risk category which one produced realises only losses. The measure of the currency exchange rate risk is known as exposure to risks. As our opinion, we appreciate that risk can't be interpreted in exclusive terms of "gain" and "loss", "favourable" or "unfavourable" situation. The decision in risk conditions, means that the decedent, in the moment of decision adoption, based on past experiences, so upon confirmed statistical laws; or based on anticipations, by not taking in consideration what happened in the past; or by combining them, will know the decisional alternatives. What he did not knows and regarding this he assumes risk, refers to the consequence of the alternatives, as being probabilistic associations.

To choose and adopt a decision starts from the premise that it has at least three alternatives:

- Gain,
- Loss,
- Gain and
- Loss.

The interpretation of one from the three alternatives, the waiting, appears in close correlation with the firms' situation in the moment of decision adoption and also with the business environment of the firm in which this acts.

Decision in the condition of uncertainty, presents important gradates towards the risk conditions. In uncertainty conditions, who adopt the decision " does not know all the alternatives, can't identify the associated probabilities to the alternatives which he knows, and does not know the consequences that could have any of the known alternatives". In these conditions, the informational system has a primary role in order to assure to the decisional process an essentially logic approach.

The experience in adopting decisions and in finding solutions, are the most important competencies must possessed by a manager who makes decisions in uncertainty and under risk conditions. The decisional process for internal and mainly international transactions, in the conditions of risk, must be divided on two levels.

On the first hand, at macroeconomic level, as result and manifestation of a multitude of political and economical interdependencies, in this case the decisional act and process is confronted with country risk. On the other hand, at microeconomic level, by referring to the firm, where in the adoption of the decision, interfere the firm specific risk.

8

Global Trade policy

Trade policy is a collection of rules and regulations which pertain to trade. Every nation has some form of trade policy in place, with public officials formulating the policy which they think would be most appropriate for their country.

The purpose of trade policy is to help a nation's international trade run more smoothly, by setting clear standards and goals which can be understood by potential trading partners. In many regions, groups of nations work together to create mutually beneficial trade policies. Things like import and export taxes, tariffs, inspection regulations, and quotas can all be part of a nation's trade policy. Some nations attempt to protect their local industries with trade policies which place a heavy burden on importers, allowing domestic producers of goods and services to get ahead in the market with lower prices or more availability.

Others eschew trade barriers, promoting free trade, in which domestic producers are given no special treatment, and international producers are free to bring in their products. Safety is sometimes an issue in trade policy. Different nations have different regulations about product safety, and when goods are imported into a country with stiff standards, representatives of that nation may demand the right to inspect the goods, to confirm that they conform with the product safety standards which have been laid out.

Security is also an issue, with nations wanting to protect themselves from potential threats while maintaining good foreign relations with frequent trading partners. When nations trade with each other regularly, they often establish trade agreements. Trade agreements smooth the way for trading, spelling out the desires of both sides to create a stronger, more effective trading relationship.

Many trade agreements are designed to accommodate a desire for free trade, with signatories to such agreements making certain concessions to each other to establish a good trading relationship. Regular meetings may also be held to discuss changes in the financial climate, and to make adjustments to trade policy accordingly. For lay people, understanding trade policy can get quite complex.

The relevant rules, regulations, agreements, and treaties are often scattered across numerous government documents and departments, from State Departments which handle foreign policy to economic departments which deal with the nuts and bolts of things like converting currency. Often, the best resource for information is documents pertaining to specific trade agreements, such as the North American Free Trade Agreement. These documents spell out the trade policy of the nations involved in one convenient location, although the language used can become very complex.

BALANCE OF TRADE

Trade balance is the difference between a country's imports and exports. When a country's imports surpass its exports over a period of time, it is called a trade deficit. A country's balance of trade is its largest component when it comes to payments. The value of balance of trade is expressed in domestic currency and is denoted by the symbol, 'NX'.

Understanding Trade Balance

Trade balance is a reflection of a country's international market and its domestic consumption. A country's balance of trade comprises a major segment of balance of payments.

This is an effective mechanism to quantify a country's overall economic transactions with the rest of the world. It also affects the country's overall GDP for that particular period. What happens when a country's exports exceed the total imports during a given period? Then, the balance of trade is termed as trade surplus or favourable balance of trade.

Composition of Trade Balance

For a given country, trade balance comprises those products that a country trades on with other countries.

Factors that affect trade balance are:

- *Demand and Supply*: The demand and supply trend defines the cost of domestic products to be sold in the international market.
- *Domestic Business*: Sound, domestic policies are required to boost production and international trade. Some countries like the US provide subsidies to local manufacturers for exported goods and services.
- *Trade Agreements*: Bilateral agreements govern international trade and define the products and their prices in the global context.
- *External Pressures*: Many countries export items that face heavy competition in international market. This results in market segmentation and low pricing. Countries that are mostly oil exporters or IT hubs

tend to generate favourable trade balance due to less competition in the international market. External pressures also work in the form of trade bans. These bans are enforced by either individual countries or international organizations such as the WTO or IMF.

- *Exchange Rate*: For nations with low exchange rate values, balance of trade tends to remain unfavourable.

Proactive market policies are required to ensure that a country's trade balance remains favourable. A sound trade balance represents an important benchmark as it reflects economic stability between nations. It fortifies trade ties with other countries and generates immense possibilities to stem job losses, inflation and unemployment.

MONOPOLISTIC COMPETITION IN INTERNATIONAL TRADE

Monopolistc competition models are used under the rubric of imperfect competition in International Economics. This model is a derivative of the monopolistic competition model that is part of basic economics. Here it is tailored to international trade.

SETTING UP THE MODEL

Monopolies are not often found in practice, the more usual market format is oligopoly: several firms, each of whom is big enough that a change in their price will affect the price of the other firms, but none with an unchallenged monopoly.

When looking at oligopolies the problem of *interdependence* arises. Interdependence means that the firms will, when setting their prices, consider the effect this price will have on the actions of both consumers and competitors. For their part, the competitors will consider their expectations of the firm's response to any action they may take in return.

Thus, there is a complex game with each side "trying to second guess each others' strategies." The Monopolistic Competition model is used because its simplicity allows the examination of one type of oligopoly while avoiding the issue of interdependence.

BENEFITS OF THE MODEL

The appeal of this model is not its closeness to the real world but its simplicity. What this model accomplishes most is that it shows us the benefits to trade presented by economies of scale.

ASSUMPTIONS OF THE MODEL

- Each firm is presumed to be able *differentiate its product* from that of its rivals. Cars are a good example here; they are very different, yet in direct competition with each other. This means there will be some customer loyalty, which allows for some flexibility for the firm to move to a higher price. In other words, not all of a firm's customers would leave for other products if the firm raised its prices.

- This model dismisses the issue of interdependence when a firm sets its price. The firm will act *as if it were a monopoly* regarding the price it sets, not considering the potential responses from its competitors. The justification is that there are numerous firms in the market, so each receives only scant attention from the others.

Background of the Model

- An industry consisting of a number of firms, each of which produces differentiated products. The firms are monopolists for their products, but depend somewhat of the number of reasonable alternatives available and the price of those alternatives. Each firm within the industry thus faces a demand that is effected by the price and prevalence of reasonable alternatives.
- Generally we expect a firm's sales to increase the stronger the total demand for the industry's product as a whole. Conversely, we expect the firm to sell less if there are a significant number of firms in the industry and/or the higher the firm's price in relation to those competitors. The demand equation for such a firm would be:

$$Q = S \times [1/n - b \times (P - P)]$$

- "Q" = the firm's sales. "*S*" is the total sales of the industry. "n" is the number of firms in the industry, "*b*" is a constant term representing the responsiveness of a firm's sales to its price. "P" is the price charged by the firm itself. "*P*" is the average price charged by its competitors.
- The intuition of this model is:
- If all firms charge the same price their respective market share will be 1/n. Firms charging more get less, firms charging less get more.
- (Note) Assume that lower prices will not bring new consumers into the market. In this model consumers can only be gained at the expense of other firms. This simplifies things, allowing a focus on the competition among firms and also allows the assumption that if *S* represents the market size, and the firms are charging the same price, the market share of each firm will be *S*/n.

CONDITIONS WHERE TRADE IMBALANCES MAY BE PROBLEMATIC

Those who ignore the effects of long run trade deficits may be confusing David Ricardo's principle of comparative advantage with Adam Smith's principle of absolute advantage, specifically ignoring the latter. The economist Paul Craig Roberts notes that the comparative advantage principles developed by David Ricardo do not hold where the factors of production are internationally mobile.

Global labour arbitrage, a phenomenon described by economist Stephen S. Roach, where one country exploits the cheap labour of another, would be a case of absolute advantage that is not mutually beneficial. Since the stagflation of the 1970s, the U.S., economy has been characterized by slower GDP growth.

In 1985, the U.S., began its growing trade deficit with China. Over the long run, nations with trade surpluses tend also to have a savings surplus. The U.S., generally has lower savings rates than its trading partners which tend to have trade surpluses. Germany, France, Japan, and Canada have maintained higher savings rates than the U.S., over the long run. Few economists believe that GDP and employment can be dragged down by an over-large deficit over the long run. Others believe that trade deficits are good for the economy. The opportunity cost of a forgone tax base may outweigh perceived gains, especially where artificial currency pegs and manipulations are present to distort trade.

Wealth-producing primary sector jobs in the U.S., such as those in manufacturing and computer software have often been replaced by much lower paying wealth-consuming jobs such those in retail and government in the service sector when the economy recovered from recessions. Some economists contend that the U.S., is borrowing to fund consumption of imports while accumulating unsustainable amounts of debt. In 2006, the primary economic concerns centered around: high national debt, high non-bank corporate debt, high mortgage debt, high financial institution debt, high unfunded Medicare liability, high unfunded Social Security liability, high external debt and a serious deterioration in the United States net international investment position, high trade deficits, and a rise in illegal immigration. These issues have raised concerns among economists and unfunded liabilities were mentioned as a serious problem facing the United States in the President's 2006 State of the Union address.

On June 26, 2009, Jeff Immelt, the CEO of General Electric, called for the U.S., to increase its manufacturing base employment to 20 per cent of the workforce, commenting that the U.S., has outsourced too much in some areas and can no longer rely on the financial sector and consumer spending to drive demand.

Conditions where Trade Imbalances may Not be Problematic

Small trade deficits are generally not considered to be harmful to either the importing or exporting economy. However, when a national trade imbalance expands beyond prudence, adjustments tend to occur. While unsustainable imbalances may persist for long periods, the distortions likely to be caused by large flows of wealth out of one economy and into another tend to become intolerable.

In simple terms, trade deficits are paid for out of foreign exchange reserves, and may continue until such reserves are depleted. At such a point, the importer can no longer continue to purchase more than is sold abroad.

This is likely to have exchange rate implications: a sharp loss of value in the deficit economy's exchange rate with the surplus economy's currency will change the relative price of tradable goods, and facilitate a return to balance or an overshooting into surplus the other direction. More complexly, an economy may be unable to export enough goods to pay for its imports, but is able to find funds elsewhere.

Service exports, for example, are more than sufficient to pay for Hong Kong's domestic goods export shortfall. In poorer countries, foreign aid may fill the gap while in rapidly developing economies a capital account surplus often offsets a current-account deficit. Finally, there are some economies where transfers from nationals working abroad contribute significantly to paying for imports. The Philippines, Bangladesh and Mexico are examples of transfer-rich economies.

Adam Smith on Trade Deficits

"In the foregoing part of this chapter I have endeavoured to show, even upon the principles of the commercial system, how unnecessary it is to lay extraordinary restraints upon the importation of goods from those countries with which the balance of trade is supposed to be disadvantageous. Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. When two places trade with one another, this [absurd] doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium."

Milton Friedman on Trade Deficits

In the 1980s, Milton Friedman, the Nobel Prize-winning economist and father of Monetarism, contended that some of the concerns of trade deficits are unfair criticisms in an attempt to push macroeconomic policies favourable to exporting industries.

Prof. Friedman argued that trade deficits are not necessarily important as high exports raise the value of the currency, reducing aforementioned exports, and vise versa for imports, thus naturally removing trade deficits not due to investment.

Milton Friedman's son, David D. Friedman, shares this view and cites the comparative advantage concepts of David Ricardo. In the late 1970s and early 1980s, the U.S., had experienced high inflation and Friedman's policy positions tended to defend the stronger dollar at that time. He stated his belief that these trade deficits were not necessarily harmful to the economy at the time since the currency comes back to the country. However, it may be in one form or another including the possible tradeoff of foreign control of assets. In his view, the "worst case scenario" of the currency never returning to the country of origin was actually the best possible outcome: the country actually purchased its goods by exchanging them for pieces of cheaply-made paper.

As Friedman put it, this would be the same result as if the exporting country burned the dollars it earned, never returning it to market circulation. This position is a more refined version of the theorem first discovered by David Hume. Hume argued that England could not permanently gain from exports, because hoarding gold would make gold more plentiful in England; therefore, the prices of English goods would rise, making them less attractive exports and making foreign goods more attractive imports. In this way, countries' trade balances would balance out. Friedman believed that deficits would be corrected by free markets as floating currency rates rise or fall with time to encourage or discourage imports in favour of the exports, reversing again in favour of imports as the currency gains strength. In the real world, a potential difficulty is that currency markets are far from a free market, with government and central banks being major players, and this is unlikely to change within the foreseeable future.

Nevertheless, recent developments have shown that the global economy is undergoing a fundamental shift. For many years, the U.S., has borrowed and bought while in general, the rest of the world has lent and sold. However, as Friedman predicted, this paradigm appears to be changing. As of October 2007, the U.S., dollar weakened against the euro, British pound, and many other currencies. For instance, the euro hit $1.42 in October 2007, the strongest it has been since its birth in 1999. Against this backdrop, American exporters are finding quite favourable overseas markets for their products and U.S., consumers are responding to their general housing slowdown by slowing their spending.

Furthermore, China, the Middle East, central Europe and Africa are absorbing more of the world's imports which in the end may result in a world economy that is more evenly balanced. All of this could well add up to a major readjustment of the U.S., trade deficit, which as a per centage of GDP, began in 1991. Friedman and other economists have pointed out that a large trade deficit signals that the country's currency is strong and desirable.

To Friedman, a trade deficit simply meant that consumers had opportunity to purchase and enjoy more goods at lower prices; conversely, a trade surplus implied that a country was exporting goods its own citizens did not get to consume or enjoy, while paying high prices for the goods they actually received. Friedman contended that the structure of the balance of payments was misleading. In an interview with Charlie Rose, he stated that "on the books" the US is a net borrower of funds, using those funds to pay for goods and services. He essentially claimed that the foreign assets were not carried on the books at their higher, truer value. Friedman presented his analysis of the balance of trade in Free to Choose, widely considered his most significant popular work.

Frédéric Bastiat on the Fallacy of Trade Deficits

The 19th century economist and philosopher Frédéric Bastiat expressed the idea that trade deficits actually were a manifestation of profit, rather than a loss. He proposed as an example to suppose that he, a Frenchman, exported French wine and imported British coal, turning a profit. He supposed he was in France, and sent a cask of wine which was worth 50 francs to England. The customhouse would record an export of 50 francs. If, in England, the wine sold for 70 francs, which he then used to buy coal, which he imported into France, and was found to be worth 90 francs in France, he would have made a profit of 40 francs. But the customhouse would say that the value of imports exceeded that of exports and was trade deficit against the ledger of France. By reductio ad absurdum, Bastiat argued that the national trade deficit was an indicator of a successful economy, rather than a failing one. Bastiat predicted that a successful, growing economy would result in greater trade deficits, and an unsuccessful, shrinking economy would result in lower trade deficits. This was later, in the 20th century, affirmed by economist Milton Friedman.

Warren Buffett on Trade Deficits

The successful American businessman and investor Warren Buffett was quoted in the Associated Press as saying "The U.S trade deficit is a bigger threat to the domestic economy than either the federal budget deficit or consumer debt and could lead to political turmoil... Right now, the rest of the world owns $3 trillion more of us than we own of them." Buffett has proposed a tool called Import Certificates as a solution to the United States' problem and ensure balanced trade.

John Maynard Keynes on the Balance of Trade

In the last few years of his life, John Maynard Keynes was much preoccupied with the question of balance in international trade. He was the leader of the British delegation to the United Nations Monetary and Financial Conference in 1944 that established the Bretton Woods system of international currency management. He was the principal author of a proposal — the so-called Keynes Plan — for an International Clearing Union. The two governing principles of the plan were that the problem of settling outstanding balances should be solved by 'creating' additional 'international money', and that debtor and creditor should be treated almost alike as disturbers of equilibrium.

In the event, though, the plans were rejected, in part because "American opinion was naturally reluctant to accept the principal of equality of treatment so novel in debtor-creditor relationships". His view, supported by many economists and commentators at the time, was that creditor nations may be just as responsible as debtor nations for disequilibrium in exchanges and that both should be under an obligation to bring trade back into a state of balance.

Failure for them to do so could have serious consequences. In the words of Geoffrey Crowther, then editor of The Economist, "If the economic relationships between nations are not, by one means or another, brought fairly close to balance, then there is no set of financial arrangements that can rescue the world from the impoverishing results of chaos."

These ideas were informed by events prior to the Great Depression when — in the opinion of Keynes and others — international lending, primarily by the U.S., exceeded the capacity of sound investment and so got diverted into non-productive and speculative uses, which in turn invited default and a sudden stop to the process of lending. Influenced by Keynes, economics texts in the immediate post-war period put a significant emphasis on balance in trade.

For example, the second edition of the popular introductory textbook, An Outline of Money, devoted the last three of its ten chapters to questions of foreign exchange management and in particular the 'problem of balance'.

However, in more recent years, since the end of the Bretton Woods system in 1971, with the increasing influence of Monetarist schools of thought in the 1980s, and particularly in the face of large sustained trade imbalances, these concerns — and particularly concerns about the destabilising effects of large trade surpluses — have largely disappeared from mainstream economics discourse and Keynes' insights have slipped from view. They are receiving some attention again in the wake of the Financial crisis of 2007–2010.

Physical Balance of Trade

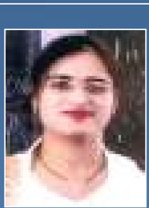
Monetary balance of trade is different from physical balance of trade. Developed countries usually import a lot of primary raw materials from developing countries at low prices.

Often, these materials are then converted into finished products, and a significant amount of value is added. Although for instance the EU has a balanced monetary balance of trade, its physical trade balance is negative, meaning that a lot less material is exported than imported. For this reason, activists talk about the issue of ecological debt which implies a sort of predatory economic system.

The nature of the trade balance statistics is such that is conceals distorted material flow.

COMMERCE EDUCATION IN THE GLOBAL ERA

Commerce Education in the Global Era delves into the evolving landscape of commerce education in an increasingly interconnected world. This comprehensive exploration encompasses various facets of commerce, including finance, marketing, management, and entrepreneurship, within the context of globalization. The book examines how advancements in technology, shifts in global economic dynamics, and changes in consumer behavior are reshaping the practice and study of commerce. It explores the integration of digital technologies and data analytics into commerce education, highlighting the importance of equipping students with the skills and knowledge needed to navigate the digital economy. Moreover, the text addresses the growing importance of cross-cultural competence and international business acumen in today's globalized marketplace. Through case studies, practical examples, and interdisciplinary perspectives, educators gain insights into innovative pedagogical approaches and curriculum design strategies to prepare students for success in the global era. Additionally, the book explores the role of experiential learning, industry partnerships, and internships in providing students with real-world exposure and practical skills relevant to the global business environment. By fostering a comprehensive understanding of commerce in the context of globalization, this book equips educators and students alike to thrive in the dynamic and competitive landscape of the global economy.



Dr. Preeti Grover is associated with academics for more than 15 years. She holds the degree of M.Com from Mahatma Gandhi Kashi Vidya Peeth University, Varanasi, B.Ed. and M.Ed. from Maharaja Gangasingh University, Rajasthan, and Doctor of Philosophy in Education from Tantia University, Rajasthan and NET in Education. She is supervising research work in the field of Education. At present she is working as a professor in Faculty of Education, Tantia University, Sri Ganganagar (Rajasthan). She has been continuously involved in research work with a bulk of publication in renowned journals and attended various conferences and seminars and workshops to share and impart his knowledge and view. 07 Ph.D. Research Scholars have been awarded Ph.D. degree under her supervision. She has participated and presented papers in more than twenty (20) International/National Seminars and already four (04) books are published by her.

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UNIVERSITY PRESS

4378/4-B, Murarilal Street, Ansari Road, Daryaganj, New Delhi-110002
Phone : +91-11-23281685, 41043100, Fax: +91-11-23270680
E-Mail: academicuniversitypress@gmail.com

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