



**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**SCHOOL OF MANAGEMENT SCIENCES**

**COURSE CODE: ENT 430**

**COURSE TITLE: INTERNATIONAL BUSINESS II**

**COURSE MATERIAL DEVELOPMENT**

**ENT 430**

**INTERNATIONAL BUSINESS II**

**COURSE GUIDE**

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## **COURSE GUIDE**

### **INTRODUCTION**

This course guide tells you the nature of the course the materials you are going to use and how you are expected to use them for meaningful benefits. It is expected that at least two hours should be devoted to the study of every unit. For each course units there are exercises. You are encouraged to do them. They serve as points of reflections, which are necessary for proper understanding of the facts.

At the end of each unit, there are tutor-marked assignments, which you are expected to answer. They serve as revision and continuous assessment. Tutorial lectures will be provided. This is the opportunity you have for a face-to-face contact with your facilitator. Any area you did not understand will be explained during the tutorial classes.

### **COURSE AIMS**

The course aims at exposing you (students) to the necessary information that will add to the student's knowledge on international business II. The aim of the course shall be achieved by:

- Introducing you to the concept of counter trade.
- Examining the meaning, scope and nature of counter trade.
- Explaining international services in international business.

- Dilating copiously the roles of central and commercial banks in domestic and world economy.
- Assessing economic integration of nations across the globe.
- Examining international logistics and supply chain management.
- Discussing broadly international human resources management, motivation of international human resources, evaluation and appraisal.

### **COURSE OBJECTIVES**

Upon successful completion of this course, you should be able to:

Discuss succinctly the concept of counter trade and operations.

### **MODULE 1**

- 1) Define and explain counter trade
- 2) Examine the various types of counter trade and classification of form.
- 3) Highlight the advantages and drawbacks of counter trade.
- 4) Discuss government position towards counter trade.
- 5) Examining the consistency of counter trade with the international trade framework.
- 6) Know how firms are prepared for counter trade.

- 7) Discuss the attitude of international organizations to counter trade.
- 8) Define and explain what international services are.
- 9) Examine the increasingly important role of international services to world economy.
- 10) Compare and contrast services and products.
- 11) Identify stand-alone services.
- 12) Discuss global transformation in the service sector.
- 13) Examine global regulation of services (GRS).
- 14) Take a case study on international services (typical international services).
- 15) Define central and commercial banks.
- 16) Trace in brief the historical background of the central bank in Nigeria.
- 17) Examine the major objectives of the central bank.
- 18) Discuss the statutory and development roles of the central bank.
- 19) Look at critically the structure of commercial banking.
- 20) Examine the reasons for government participation in commercial banking.
- 21) Discuss the roles of commercial bank to economic development.
- 22) Explain commercial banks credit creation.
- 23) Identify the limitations of commercial bank credit creation.

- 24) Discuss the power control of central bank over commercial bank.
- 25) Explain what is meant by economic integration.
- 26) Examine the cost and benefit of integration arrangements.
- 27) Discuss economic community as a form of economic integration.
- 28) Dilate copiously the emergence of Economic Community of West African State (ECOWAS).
- 29) Examine the sub-regional interest and global environment.
- 30) Discuss the prevailing economic integration problems.
- 31) Look at other levels/forms of economic integration.
- 32) In briefly, explains the structure of the European union and its implications for firms within and outside Europe.
- 33) Discuss the emergence of other integration agreement, especially in the American and Asia in brief.

## **MODULE 2**

- 1) Define international logistics and supply chain management.
- 2) Examine the major problems address by supply chain management.
- 3) Identify the major activities and functions of supply chain management.
- 4) Trace the historical development in supply chain management.
- 5) Discuss supply chain business process integration.

- 6) Highlight the various theories of supply chain management.
- 7) Itemize the various components of supply chain management.
- 8) Examine global supply chain management
- 9) Definition of human resources management (HRM).
- 10) Meaning of international human resource management (IHRM).
- 11) Differences between domestic human resources management and international human resources managements.
- 12) The sources for management recruitment.
- 13) Selection criteria for overseas assignment
- 14) Culture shock.
- 15) Labour participation in management
- 16) The role played by labour unions
- 17) Human resource policies.
- 18) What international human resources managers do.
- 19) Define and explain international accounting
- 20) Discuss major differences in financial reporting.
- 21) Examine the composition and structure of international taxation.
- 22) Identify major conceptual differences in international tax system.
- 23) Examine the various tax systems internationally.
- 24) Discuss the source of income for international taxation
- 25) Explain the tax jurisdiction systems we have.
- 26) Dilate tax treaties.



- 27) Examine critically strategic planning in international business.
- 28) Discuss the brief history of strategic planning in international business.
- 29) Identify the benefits of strategic planning in international business.
- 30) Dilate the significance of strategic planning in international business.
- 31) Examine the strategic planning process.

### **MODULE 3**

- 1) Define and explain the concept of culture.
- 2) Examine international culture.
- 3) Discuss the various elements of culture.
- 4) Explain material cultural element.
- 5) Identify the source of cultural knowledge.
- 6) Dilate copiously cultural analysis.
- 7) Draw up a model of cross cultural behaviour
- 8) Define and explain the concept of transfer pricing.
- 9) Identify the various objectives of transfer pricing.
- 10) Discuss the determinants of appropriate transfer pricing.
- 11) Explain some of the transfer pricing criterion.
- 12) Explain internal reporting concept and

- 13) External reporting
- 14) Highlight the most influencing factors to transfer pricing.
- 15) Examine the relative transfer pricing methods.
- 16) Itemize the general problems of transfer pricing.
- 17) Define and explain investment policy.
- 18) Define investment policy statement.
- 19) Examine the role of portfolio manager.
- 20) Explain the meaning of portfolio.
- 21) Discuss asset allocation and risk tolerance.
- 22) Critically discuss profits with investment policy statement and heading with puts and calls.
- 23) Identify how one's role should be understood in investing process
- 24) Discuss the portfolio management pay off in a tough market.
- 25) Examines the asset allocations that work.
- 26) Define free trade zones and dilate copiously its meaning.
- 27) Trace the developmental background of free trade zones.
- 28) Examine the structure of free trade zones.
- 29) Identify the categorization of free trade zones.
- 30) Discuss some of the criticisms to free trade zones.
- 31) Explain the benefits and significance of free trade zones to its member states.

## **MODULE 4**

- 1) Examine critically the international business payment means and foreign exchange market.
- 2) Differentiate between drafts and letter of credit.
- 3) Discuss the complex nature of the foreign exchange market.
- 4) Identify the level of liquidity in the foreign exchange market.
- 5) Explain the securities traded at the foreign exchange market and the financial and non financial market participants.
- 6) Examine the determinants of exchange rate at the foreign exchange market.
- 7) The definition and explanation of the terms standardization and adaptation in business.
- 8) The managerial and contingency perspectives as regard standardization and adaptation.
- 9) The argument for or against standardization and adaptation.
- 10) The business process modeling and standardization.
- 11) The various factors affecting standardization and adaptation of products and services.
- 12) The ideal versus actual international marketing strategies.
- 13) Distinguishing between technical and commercial adaptation
- 14) Clearly distinguish between domestic and international research.
- 15) Discuss the general features of business research.

- 16) Examine the roles of research in business identify the skills of scientific investigation.
- 17) Explain some of the general problems affecting business research in developing and developed countries of the world.
- 18) Dilate copiously the sources of secondary and primary data.
- 19) Discuss the nature and scope of international operation
- 20) Examine the organization of multinational enterprise.
- 21) Discuss the conduct of international operations.
- 22) Explain the factors affecting the decisions about international operations.
- 23) Give some of the reasons why international operation is necessary.
- 24) Highlight the tenets when offering advice to business going global.
- 25) Trace briefly the origin of international operations
- 26) Examine the global organizational structure and design.
- 27) Explain controls/types.

## **COURSE MATERIALS**

1. Course Guide
2. Study Units
3. Textbooks
4. Assignment File
5. Tutorials

## **STUDY UNITS**

There are sixteen study units into four modules as shown below:

### **MODULE 1**

- Unit One: Counter-Trade
- Unit Two: International Services
- Unit Three: Roles of Central and Commercial Banks
- Unit Four: Economic Integration

### **MODULE 2**

- Unit One: International Logistic and Supply Chain Management
- Unit Two: International Human Resources Management
- Unit Three: International Accounting and Taxation
- Unit Four: Strategic Planning In International Business

### **MODULE 3**

- Unit One: Culture and International Business
- Unit Two: Transfer Pricing
- Unit Three: Investment Policies

Unit Four: Free Trade Zones

#### **MODULE 4**

Unit One: International Business Payments and Foreign  
Exchange Market

Unit Two: Standardization versus Adaptation

Unit Three: International Business Research

Unit Four: Origin and Control of International Operations

For each study unit, which you are expected to spend at least three hours, there are specific objectives. At the end of each unit, measure what you have learnt against the objectives. If there is any deviation go back to the contents of the unit. There are textbooks, which you may go for additional information.

The exercise in each unit have to be attempted to ensure that you are following the ideas being presented. In addition, there are tutor-marked assignments. You are entreated to attempt them, as some of them will form part of the continuous assessment.

#### **ASSIGNMENT FILE**

There will be four (4) assignments, which will cover the following areas:

1. Counter Trade, International Services, Roles of Central and Commercial Banks And Economic Integration (Unit 1,2,3 and 4 of Module One).

2. International Logistics and Supply Chain Management, International Human Resources Management, International Accounting and Taxation and Strategic Planning in International Business (Unit 1,2,3 And 4 of Module Two).
3. Culture and International Business; Transfer Pricing Investment Policies and Free Trade Zones (Unit 1,2,3 And 4 of Module Three).
4. International Business Payments and Foreign Exchange Market, Standardization Versus Adaptation; International Business Research, and the Origin and Control of International Operations (Unit 1,2,3 And 4 of Module Four).

### **PRESENTATION SCHEDULE**

This concerns date for tutorials, submission of assignment to be sent to you in due course.

### **ASSESSMENT**

This will be in two forms:

1. The continuous assessment which will be based on 30%.
2. The final semester examination after you have completed the material 70%.

### **TUTOR-MARKED ASSIGNMENTS**

There is TMA at the end of each unit and you are to submit the four. Each of them is 10%.

As soon as you complete your assignment, sent it immediately to the tutor. The best three (3) will be selected for continuous assessment purpose.

### **FINAL EXAMINATION AND GRADING**

The final examination of ENT428 will be of two-hour duration and have a value of 70% of the total course grade. The examination will consist of questions which reflect the type of self-testing, practice exercises and tutor-marked problems you have come across. All areas of the course will be assessed.

You are advised to revise the entire course after studying the last unit before you sit for the examination. You will find it useful to review your tutor-marked assignments and the comments of your tutor on them before the final examination.

### **COURSE REVIEW**

This table brings together the units, the number of weeks you should take to complete them, and the assignments that follow them.

	<b>TITLE OF THE WORK</b>	<b>WEEKS ACTIVITY</b>	<b>ASSESSMENT</b>
<b>UNIT</b>	<b>MODULE 1</b>		<b>END OF UNIT</b>
ONE	Counter trade International Services	1	



TWO	Roles of Central and	1	1 <sup>ST</sup> Assignment
THREE	Commercial Banks	1	
FOUR	Economic Integration	1	
<b>UNIT</b>	<b>MODULE 2</b>		<b>END OF UNIT</b>
ONE	International Logistic Supply Chain Management.	1	2 <sup>ND</sup> Assignment
TWO	International Human Resources Management.	1	
THREE	International Accounting and Taxation.	1	
FOUR	Strategic Planning in International Business.	1	
<b>UNIT</b>	<b>MODULE 3</b>		<b>END OF UNIT</b>
ONE	Culture and International Business.	1	3 <sup>RD</sup> Assignment
TWO	Transfer Pricing.	1	
THREE	Investment Policies	1	
FOUR	Free Trade Zones	1	

<b>UNIT</b>	<b>MODULE 4</b>		<b>END OF UNIT</b>
ONE	International Business Payments and Foreign Exchange Market.	1	4 <sup>TH</sup> Assignment
TWO	Standardization versus Adaptation.	1	
THREE	International Business Research	1	
FOUR	Origin and Control of International Operations.	1	
	REVISION	1	
	<b>Total</b>	<b>17</b>	

### **How to get the most from this course**

In distance learning the study units replace the university lecturer. This is one of the greatest advantages of distance learning; you can read and work through specially designed study materials at your pace, and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your set books or other material.

Just as a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follow a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the units you must go back and check whether you have achieved the objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the units you must go back and check whether you have achieved the objectives. If you make a habit of doing this you will insignificantly improve your chances of passing the course. The main body of the unit guides you through the required reading from other sources.

## **READING SECTION**

Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1. Read this course guide thoroughly.
2. Organize a study schedule. Refer to the "Course overview" for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.
3. Once you have created your own study schedule, do every thing you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
4. Turn to unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given the "Overview" at the beginning of each unit. You will always need both the study unit you are working on and one of your set books on your desk at the same time.

6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
7. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
8. When you are confident that you have achieved a units objectives, you can start on the next unit. Proceed unit by unit through the course and try to space your study so that you keep yourself on schedule.
9. When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments. Consult your tutor as soon as possible if you have any questions or problems.
10. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objective (listed in the course guide).

## **TUTOR AND TUTORIALS**

There are 8 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the name and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignment, keep a close on your progress and on any difficulties you might encounter and provide assistance to you during the course.

You must mail your tutor- marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary.

Contact your tutor if:

- 1) You do not understand any part of the study units or the assigned readings.
- 2) You have difficulty with the self-tests or exercises.

3) You have a question or problem with an assignment, with your tutor's comments on an assignment or with the grading of an assignment.

You should try your best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will gain a lot from participating in discussion actively.

### **SUMMARY**

An economic arrangement between different region marked by the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies. The aim of economic integration is to reduce costs for both consumers and producers, as well as to increase trade between countries taking part in the agreement. There are varying levels of economic integration including preferential trade agreements (PTA), free trade areas (FTA), custom unions, common markets and economic and monetary unions.

A number of arguments surround economic integration. They center on trade creation and trade diversion, reduced import prices increased competition and economies of scale, higher factor productivity and Regionalism Versus Nationalism.

## **MODULE ONE**

UNIT 1: COUNTER-TRADE

UNIT 2: INTERNATIONAL SERVICES

UNIT 3: ROLES OF CENTRAL AND COMMERCIAL BANKS

UNIT 4: ECONOMIC INTEGRATION

### **UNIT ONE: COUNTER TRADE**

#### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Definition and meaning of Counter-trade
  - 3.2 Types of counter trade/classification of forms.
  - 3.3 The advantages and pitfalls of counter trade.
  - 3.4 Government position towards counter trade.
  - 3.5 The consistency of counter trade with the international trade framework.
  - 3.6 Preparing firms for counter trade.
  - 3.7 The emergence of new intermediaries.
  - 3.8 The attitude of international organizations to counter trade.
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor –marked assignment



7.0 Reference/further reading.

## **1.0 INTRODUCTION**

Counter trade means exchange goods or services which are paid for, in whole or part, with other goods or services, rather than with money. A monetary valuation can however be used in Counter trade for accounting purposes. In dealing between sovereign states, the term bilateral trade is used. OR' any transaction involving exchange of goods or service for something of equal value".

Counter trade also occurs when countries lack sufficient hard currency, or when other types of market trade are impossible.

The security council noted" although locally produced food items have become increasingly available throughout the country, most countries do not have the necessary purchase power to buy them.

Unfortunately, the monthly food ratios represent the largest proportion of their household income. They are obliged to either barter or sell items from the food basket in order to meet their other essential needs. This is one of the factors which partly explain why the nutritional situation has not improved in line with the enhanced food basket. Moreso, the absence of normal economic activities has given rise to the spread of deep-seated poverty.

## **2.0 OBJECTIVES OF THE UNIT**

Upon successful completion of this unit, it is expected that you do the following:

- 4) Define and explain counter trade
- 5) Examine the various types of counter trade and classification of form.
- 6) Highlight the advantages and drawbacks of counter trade.
- 7) Discuss government position towards counter trade.
- 8) Examining the consistency of counter trade with the international trade framework.
- 9) Know how firms are prepared for counter trade.
- 10) Discuss the attitude of international organizations to counter trade.

## **3.0 MAIN CONTENT**

### **3.1 DEFINITION AND MEANING OF INTERNATIONAL TRADE**

Counter-trade is a sale that encompasses more than an exchange of goods, service or ideas for money. In the international market, counter trade transactions are those transactions that have as basic characteristics a linkage, legal or otherwise, between exports and imports of goods or services in addition to, or in place of financial

settlements. “Historically, counter trade was mainly conducted in the form of barter, which is a direct exchange of goods of approximately equal value between parties with no money involved. Such transactions were the very essence of business at a time during which no money that is, no common medium of exchange – existed or was available. Over time money emerged as a convenient time and their joint timing and therefore permitted greater flexibility

Increasingly, countries and companies are deciding that counter trade transactions based on financial exchange alone. One reason is that the world debt crisis has made ordinary trade financing very risky. Another reason for the increase in counter trade is that many countries are again responding favourably to the notion of liberalism.

### **3.2 TYPES OF COUNTER TRADE/CLASSIFICATION OF FORMS**

**A. BARTER:** This is exchange of goods or services directly for other goods or services without the use of money as means of purchase or payment. Barter is the direct exchange of goods between two parties in a transaction. The principal exports are paid for with goods or services supplied from the importing market. A single contract covers both flows, in its simplest form involves no cash. In practice, supply of the principal exports is often held up until sufficient revenues have been earned from the sale of bartered goods. One of the largest barter deals

to date involved occidental petroleum corporation's agreement to ship sulphuric acid to the former Soviet union for ammonia area and potash under a 2 year deal which was worth 18 billion euros.

Furthermore, during negotiation stage of a barter deal, the seller must know the market price for items offered in trade. Bartered goods can range from hams to iron pellets, mineral water, furniture or olive-oil all somewhat more difficult to price and market when potential customers must be sought.

**B. SWITCH TRADING:** Practice in which one company sells to another its obligation to make a purchase in a given country.

**C. COUNTER PURCHASE:** Sale of goods and services to one company in other country by a company that promises to make a future purchase of specific product from the same company in that country.

**D. BUYBACK:** Occurs when a firm builds a plant in a country-or supplies technology, equipment, training, or other services to the country and agrees to take a certain percentage of the plants output as partial payment for the contract.

**E. OFFSET:** Agreement that a company will offset a hard currency purchase of an unspecified product from that nation in the future. Agreement by one nation to buy a product from another, subject to the

purchase of some or all of the components and raw materials from the buyer of the finished product or the assembly of such, product in the buyer nation.

### **3.3 THE ADVANTAGES/ROLES OF COUNTER TRADE IN THE WORLD MARKET**

Noted US economist Paul Samuelson was skeptical about the viability of counter trade as a marketing tool, claiming that “unless a hungry tailor happens to find an undraped farmer, who has both food and a desire for a pair of pants, neither can make a trade.” (This is called “double coincidence of wants”). But this is arguable a too simplistic interpretation of how markets operate in the real world. In any real economy, Bartering occurs all the time, even if it is not the main means to acquire goods and services.

The volume of counter trade is growing. In 1972, it was estimated that counter trade was used by business and governments in 15 countries, in 1972, 27 countries; by the start of 1990s, around 100 countries. (Vertariu 1992). A large part of counter trade has involved sales of military equipment (weaponry, vehicles and installations).

More than 80 countries nowadays regularly use or require counter trade exchange. Officials of the General Agreement on Tariffs and Trade (GATT) Organization claimed that counter trade accounts for around 5%

of the world trade. The British department of trade and industry has suggested 15%.

### **3.4 GOVERNMENT POSITION TOWARDS COUNTER TRADE**

Government and international organization are concerned about the trend toward counter trade, yet in light of existing competition and the need to find creative ways of financing trade, they exercise very little interference with counter trade.

Defense offset agreements are legal trade practices in the aerospace and military industries. These commercial practices do not need state regulation but, since the purchasers are mostly military departments in sovereign nations. Many countries have offset laws, public regulations or, alternatively, formal internal offset policies. The international names for these commercial practices or parties connected to weapons trade are various; industrial compensations, industrial cooperation, offsets, industrial and regional benefits, balance, equilibrium, to define mechanisms are complex than counter trade, offset agreement are protectionist and distort competition. Counter trade can also be considered one of the many forms of defense offset. Generally, the seller is a government that stipulates that the seller must then agree to buy products from companies within their country. Often, the aim of this

process is to even-up a country's balance of trade. This is frequently an integral part of international defence contract.

### **3.5 THE CONSISTENCY OF COUNTER TRADE TOWARDS INTERNATIONAL TRADE FRAMEWORK.**

Counter trade is controversial because it is a trade management practice. However, trade management is widespread, the United Nations estimates that fully 50% of present world trade is managed trade, with counter trade accounting for half of that or 25% of total world trade.

The slow response of government and academia to the institutionalization of counter trade has left most international business students and managers to learn the hard way how to use a trade management mechanism to their own advantage.

It is not surprising that companies have no specific policy or strategy concerning counter trade. Some deliberately downplay counter trade feeling, that is only a small part of their international operations and thus is not worth the trouble of specific policy and strategy formulation.

Others are interested in counter trade perhaps even enthusiastic about its possibilities as a marketing tool, but have not been able to develop an effective strategy due to inexperience, confusion, intercompany conflict, or lack of intercompany coordination.

### **3.6 PREPARING FIRMS FOR COUNTER TRADE**

The majority of counter trade transactions are consummated by counter trade specialists who are outside the corporation. However, increasingly companies consider carrying out counter trade transaction in house. If this can be done, the need for steep discount may decrease and the profitability of counter trade may improve.

The most favoured counter trade arrangement from the buyer's perspective should be identified. The company should find out why this particular arrangement is the most favoured.

The basic policies and strategies outlined here represent an attempt to classify and compare the counter trade practices of select world most successful companies and might be used by other companies to evaluate the emergence of the sufficed counter trade though the effectiveness of the company advantage policy varies. There are also some cases in which the company begins to follow a mutual advantage policy.

Companies which have counter trade with "problem" countries usually hate counter trade; depend on how difficult their experiences are, they will either approach counter trade with extreme caution or wish it would disappear.



### **3.8 ATTITUDES OF INTERNATIONAL ORGANIZATIONS TOWARD COUNTER TRADE**

Association or corporations are increasingly using counter trade as a competitive tool to maintain or increase market share. The complexity of the transactions requires careful planning in order to avoid major corporate losses. Management must consider how he acquired merchandise will be disposed of, what the potential for market disruption is, and to what extent counter trade goods fit in with the corporate mission. There is a positive attitude toward counter trade among the sample of firms surveyed. Most who took part in the survey believe that counter trade is a permanent feature in the world trading scene, and many also thought that it would spread even further. The responses to questions regarding attitudes to counter trade were:

- 75% - counter trade is here to stay.
- 62% - counter trade will grow and spread into the future.
- 56% - counter trade is an innovative response
- 53% - firms should in counter trade only if necessary.
- 41% - counter trade is a powerful marketing tool.
- 41% - firms should take the initiative in counter trade deals.
- 30% - counter trade is an inefficient form of international trade.
- 19% - counter trade conflicts with GATT principles.

- 16% - counter trade should be discouraged.
- 3% - counter trade is a temporary phenomenon

#### **SELF ASSESSMENT EXERCISE:**

What is counter trade and their various forms?

#### **4.0 CONCLUSION**

The greatest benefit to be derived from counter trade was an increase in sales volume by 56% of respondents. Other benefits recorded by a majority of the respondents were that counter trade allowed entry into difficult markets (64%), it overcomes credit difficulties (54%), it foster long-term customer good will (53%), it increases the firm's overall competitiveness (52%), and allows a better use of capacity (51%).

#### **5.0 SUMMARY**

The difficulties in re-selling the counter trade goods was seen as the major reason for not counter trading (74%), other reasons were no in-house use for the counter traded goods (66%), a lack of knowledge about counter trade (64%), the complex negotiations involved (62%), the time consumed in negotiations (60%), problems with pricing (59%), and a general increase in uncertainty. Counter purchase, offset and switch was the major forms of counter trade in which the respondents firms engaged. Barter and compensation occurred much less frequently.

## **6.0 TUTOR-MARKED ASSIGNMENT**

- Discuss the roles and benefits of counter trade.
- Identify the major drawbacks to counter trade.

### **ANSWERS TO SELF ASSESSMENT**

Counter trade means exchanging goods or services with are paid, for in whole or part, with other goods or services, rather than with money. A monetary valuation can however be used in counter trade for accounting purposes.

- Counter trade encompasses;
  - Barter
  - Switch trading
  - Counter purchase
  - Buyback
  - Offset

## **7.0 REFERENCES/FURTHER READING**

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New York.

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(November 2) Pg 2 – 6.

## **UNIT TWO:**

## **INTERNATIONAL SERVICES**

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## **1.0 INTRODUCTION**

To be successful in international services offering, the manager must first determine the nature and the aim of the service-offering core-that is, whether the service will be aimed at people or at things and whether the service act in itself will result in tangible or intangible actions.

Services may complement goods; at other times, goods may complement services. The offering of goods that are in need of substantial technological support and maintenance may be useless if no proper assurance for service can be provided.

The major segments that comprise the service sector are communications, transportation, public utilities, finance, insurance and real estate wholesale and retail businesses, government, and “service” (a diverse category including business services, personal services, and professional and health services). The service sector accounts for most of the growth in total non-farm employment. Many service industries that do sell abroad often have at their disposal large organizations, specialized technology, or advanced professional expertise. Strength in this characteristic has enabled many countries of the world to become the world’s largest exporter of services.

## **2.0 OBJECTIVES OF THE UNIT**

At the end of this unit, you are expected to:

- Define and explain what international services are.
- Examine the increasingly important role of international services to world economy.
- Compare and contrast services and products.
- Identify stand-alone services.
- Discuss global transformation in the service sector.
- Examine global regulation of services (GRS).
- Take a case study on international services (typical international services).

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF INTERNATIONAL SERVICES**

Service are taking on an increasing importance in international trade. They need to be considered separately from trade in merchandise because they no longer simply complement goods. According to World Trade Organization, service structure could be manufactured product services- products and services producers make use of the various factors of reducing production, such as raw material, land, skilled labour, capital/equipment. Technology and efficient management. This manufactured products and services can be classified into two: Viz,



(i) Those for industrial usage and (ii) those for consumer. Another of classification is, at the level of durability e.g. durable and non-durable.

**Industrial services:** The services incorporated into this description include:

(i) Engineering projects (ii) machinery and equipment analysis including such possible inspection of (iii) industrial parts (iv) completely assembled motor vehicles or its parts construction project of various scale and size in the international market.

Those usually desirous of the ITO (International Trade Organization) services in this are include: New line, the dependent traders factory owners.

ITO under the operations of manufactured products offered several services to include; pre-qualification surveys, quality control, design review of equipment and parts, statutory inspection and certification.

The consumer services sector exists a wide rang of product area, covering from household goods, electronics, textiles garments, footwears, toys, fittings that generally gain acceptance in the international markets.

A good example of the ITO type of operational agencies is the Societe General de surveillance (SGS) of Switzerland.

This company has a worldwide of network of companies and represented in many continents and countries. International services are major component of world trade.

### **3.2 THE INCREASING IMPORTANT ROLE OF GLOBAL SERVICE INTERNATIONAL BUSINESS (WORLD ECONOMY).**

This unit emphasizes the key roles that service play domestically and internationally in terms of accounting for rising shares of domestic output and employment as well as cross-border trade and foreign direct investment that provide enhanced export opportunities and lower-cost imports. Services are commonly subject to a variety of regulatory policies, such that liberalization requires both the removal of explicit barriers combined with regulatory reform. There is substantial evidence indicating that services liberalization and regulatory reform may result in increased economy growth and greater efficiency in the use of labour and capital, increased product innovation, and increased consumer welfare. The role of services is put in context by a review of selected economic data on the trade and macro economic structure and performance especially of the five Andean economics-

Bolivia, Colombia, Ecuador, Peru, and Venezuela. The implications of regulatory reform and services liberalization are analyzed in some depth, after which there is a focus on methods of measurement of international services barriers and qualification of the economic significance of reducing or removing these barriers. The potential economic benefits of services liberalization are illustrated computation includes with a discussion of priorities for multilateral service negotiations.

### **3.3 JUXTAPOSING SERVICES AND PRODUCTS**

Services can be just as dependent on goods. For example, an airline that prides itself on providing an efficient reservation system and excellent linkups with rental cars and hotel reservations could not survive if it were not for its airplanes.

#### **3.3.1 DIFFERENCES BETWEEN SERVICES AND PRODUCTS**

The precise role of services in our lives are rarely contemplated or analyzed. Services often accompany goods, but they are also, by themselves, an increasingly important part of the economy. One author has contrasted services and products by stating that “a good is an object, a device, a thing; a service is a deed, a performance, an effort” that definition, although quite general, captures the essence of the difference between goods and services. Service tends to be more

intangible, personalized and custom-made than goods. In addition, services are the fastest growing sector in world trade and as this unit opening shows, employment in the services sector is becoming increasingly global. These major differences add dimensions to services that are not present in goods.

### **3.3.2 LINKAGE BETWEEN SERVICES AND GOODS**

Services may complement goods; at other times, goods may complement services. The offering of goods that are in need of substantial technological support and maintenance may be useless if no proper assurance for service can be provide. For this reason, the initial contract of sale often includes the service dimension. This practice is frequent in aircraft sales and sale of computer hardware which depend on the availability of proper servicing and software.

The linkage between goods and service often brings a new dimension to international business efforts. A foreign buyer, for example, may want to purchase helicopters and contract for service support over a period of ten years. Services can be just as dependent on goods. The simple knowledge that services and goods interact, however, is not enough. Successful managers must recognize that different customer groups will frequently view the service–good combination differently.

### **3.4 SINGLETON SERVICE - STAND-ALONE SERVICE**

Most services can be started in one of three ways:

First as a stand alone (resource hungry, as shall be discussed) Daemon; second, under, inetd; or third as an inetd service which is “TCP wrapper”-moderated.

However, some services will run using only one method. Here, we will give an example showing all three methods. Services do not have to come in union with goods. They can compete against goods and become an alternative offering. Service by themselves can satisfy needs and wants of customers. Entertainment services such as movies or music offer leisure time enjoyment. Insurance services can protect people from financial ruin in case of a calamity.

Services may also compete against one another. For example a store may have the option of providing full services to customers or of converting to the self services format. Services differ from goods most strongly in their intangibility; they are frequently consumed rather than possessed. Though the intangibility of services is a primary differentiating criterion, it is not always present. For example publishing services ultimately result in a tangible good-named, a book or a computer disk.

Another major difference concerns the storing of services. Due to their nature, services are difficult to inventory. If they are not used, the

“brown around the edges” syndrome tends to result in high perishability. Unused capacity in the form of an empty seat on an airplane for example, becomes nonsalable quickly.

### **3.5 GLOBAL TRANSFORMATION IN THE SERVICE SECTOR**

After the financial market crisis, the services industries are at the Crossroads, with substantial challenges facing key players and regulators in their effort to restore public confidence and to create effective, long-lasting conditions to prevent a similar crisis in the future. A global transformation of the industry is taking place driven by market and political forces. International standards has shown that when the goals of industry, government and consumers are consistent, the international standardization system offers a framework where the needs of all interested and affected parties can be met through their effective participation with substantial benefit for all of them.

Regulatory authorities in the financial services sector often use the term “standard” and “international standards” to designate principles and rules of financial regulation and supervision. Standards are written international agreements on the use of technologies, methods or processes, adopted by consensus between parties concerned for consistent use in a given market. In many sectors standards are seen as complementary to public policies and have proven to be efficient and

cost effective tools, to support the consistent technical implementation of regulatory driven initiatives by industry players.

Two major factors, environmental and technological change, account for the dramatic rise in service trade. One key environmental change has been the reduction of government regulation of service industries. Another major environmental change has been the decreased regulation of service industries by their services groups. For example, business practices in fields, such as health care, law, and accounting are becoming increasingly competitive and aggressive. Technology has also sharply reduced the cost of communication. As such many service providers have the opportunity to become truly global players. To them, the traditional international market barrier of distance no longer matters. Knowledge, the core of many service activities, can offer a global reach without requiring a local presence.

### **3.6 ASSOCIATED PROBLEMS IN INTERNATIONAL SERVICE**

#### **TRADE**

How does one sell a new concept such as trade negotiations on services to the world community? This book has documented all the reasons it makes sense to negotiate multilateral trade agreements in services. However, compelling the arguments for trade negotiations on services, the international consensus to include trade in services did not emerge

spontaneously and was forged only with considerable difficulty. Together with the increase in the importance of service trade, new problems have emerged in the service sector. Many of these problems have been characterized as affecting mainly the negotiations between nations, but they are of sufficient importance to firms engaged in international activities to merit a brief review.

### **3.6.1 THE DATA COLLECTION ON SERVICE TRADE ARE OFTEN SKETCHILY**

Service transactions are often invisible statistically as well as physically. For example, the trip abroad of a consultancy for business purposes may be hard to tract and measure.

### **3.6.2 DISINCENTIVES TO THE OFFERING OF INTERNATIONAL SERVICES BY THE WORLD SUPER POWER**

Despite its commitment to free trade, the United States has erected and maintained major barriers to international services. These disincentives affect both inbound and outbound services. Barriers to services destined for the world market result mainly from regulatory practices.

### **3.6.3 GLOBAL REGULATIONS OF SERVICES**

Some of the information about foreign laws and regulations provided by businesses are being made outdated. In other cases, the key players in



international services misunderstood the scope and application of foreign laws and regulations. Discriminatory measures or laws that served as an impediment to the sale of services by foreign suppliers.

### **3.7 TYPICAL INTERNATIONAL SERVICES**

As a result, rapidly expanding trade in both goods and services has become an increasingly phenomenon in the world economy, the growing role of multinational corporations as rectors for international trade:

- Agricultural marketing service offers an array of valuable services that give buyers and sellers of agricultural products a competitive advantage in the global market place.
- Scientific and intellectual property services works to improve the quality, wholesomeness, and marketing of agricultural commodities by providing scientific testing support and intellectual property protection to the world market.
- Construction, design and engineering services also have great international potential. Providers of these services can achieve economies of scale not only for machinery and material but also in areas such as personnel management and the overall management of projects.

- Insurance services can be sold internationally by firms knowledgeable about underrating, risk evaluation, and operations. Firms offering legal and accounting services can aid their clients abroad through support activities.
- Communication services have substantial future international opportunities. For example, firms experienced in the areas of videotext, home banking, and home shopping can find international success particularly where geographic obstacles make the establishment of retail outlets cumbersome and expensive.
- Teaching services and consultancy services can be provided by firms and individuals to the many countries and cooperation in need of them.

### **Self Assessment Exercise**

- Itemize the typically international services you know.

## **4.0 CONCLUSION**

In this unit, you have learnt what international services are, reasons why many business go international, the distinctions between services and products. This unit has also taken you round the showcase the

linkage between services and goods. You are also exposed to the associated problems in international services trade.

## **5.0 SUMMARY**

Service attributes such as their intangibility, their perishability, their custom design and their cultural sensitivity frequently make international trade in services more complex than trade in goods. Services play an increasing role in the global economy. International growth and competition in this sector have begun to outstrip that of merchandise trade and are likely to intensify in the future. The service firms now operating only domestically need to investigate the possibility of going global.

## **6.0 TUTOR -MARKED ASSIGNMENT**

- Juxtapose between services and product.
- What is stand-alone service?

## **ANSWER TO SELF ASSESSMENT EXERCISE**

Numerous services are showcased in the world market in areas such as:-

- Construction, design and engineering.
- Insurance

- Tourism
- Communication
- Teaching
- Consulting etc.

## **7.0 REFERENCES/FURTHER READING**

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**UNIT THREE: ROLES AND CONTROL OF CENTRAL AND  
COMMERCIAL BANKS**

**CONTENTS**

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Application of Monetary Policy)
- 4.0 Conclusion
- 5.0 Summary

- 6.0 Tutor-Marked Assignment
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## **1.0 INTRODUCTION**

Following the breakdown international gold standard in the thirties. Countries embarked on policies aimed at increasing their exports and reducing their imports, such as currency depreciation. With the quest to improve and promote locally made product and services to the international standard, the banking industry plays major role. Small and medium scale enterprises obtain soft loans and long term loan for business establishment and expansion. Entrepreneurs sprang up from nooks and cranials of the county and outside the country with satisfactory business ideas. Credit facilities are extended to them under the aegis of micro credit scheme initiative of the central bank to the commercial banks.

Since the employment opportunities in the developing nation like Nigeria are faced with major bottlenecks and limiting factors, the banking institution, puts a smile on the faces of local craft industries and small and medium scale business and agricultural operation which curb 80% of the country's employees.

The central bank is seen as the apex bank to the commercial banks. This unit shall critically examine the role of central bank and the commercial banks.



## **2.0 OBJECTIVES OF THE UNIT**

After studying this unit, you should be able to do the following:

- Define central and commercial banks.
- Trace in brief the historical background of the central bank in Nigeria.
- Examine the major objectives of the central bank.
- Discuss the statutory and development roles of the central bank.
- Look at critically the structure of commercial banking.
- Examine the reasons for government participation in commercial banking.
- Discuss the roles of commercial bank to economic development.
- Explain commercial banks credit creation.
- Identify the limitations of commercial bank credit creation.
- Discuss the power control of central bank over commercial bank.

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF CENTRAL BANK**

The central bank is defined as the government bank of any country. It is the apex regulatory authority of the financial system. It supervises all government monetary policies and also ensures its implementation. It places the needs of the country over and above its own financial interest, and acts on behalf of the government to exercise ultimate control over other banks and financial institutions of that country. Such banks are central bank of Nigeria, (CBN), South African central bank (SACB), central bank of Ghana (CBG), Swiss central bank (SCB) etc.

#### **3.2 THE HISTORICAL BACKGROUND OF CENTRAL BANK**

##### **(ABRIDGED)**

The West African currency board (WACB) was established in 1912 by the British colonial government to serve the central bank for the Anglophone West African countries. Amongst its functions was to issue the West African pounds to serve as legal tender in Gambia, Sierra Leone, Ghana and Nigeria. The reserves of the countries are managed by the WACB who invest these reserves instruments at the money market in London. The balance of payment equilibrium was among the focal point of the bank during this period and it was able to maintain it

in all the West African economies. Despite this achievement, the bank suffered a number of weaknesses. These weaknesses led to the three major commissions that were set-up by the British colonial government in the 1950s to look into the possibility of establishing a central bank in Nigeria.

The commissions were:

- J.L. Fishers Commission (1952)
- J.B. Loynes Commission (1957) and
- I.B.R.D. Commission (1953)

J. B. Loynes recommendations led to the promulgation of the Central Bank of Nigeria (CBN) Act of 1958, which set up the Central Bank of Nigeria. The legal backing for the CBN rests mainly in Central Bank of Nigeria Decree No. 24 of 29<sup>th</sup> June, 1991 which supersedes the CBN Act of 1958 and subsequent amendments and the Central Bank of Nigeria (currency conversion) Act of 1967 and its amendments. This decree expanded the powers of the CBN to execute its primary functions. With the introduction of the Banks and other Financial Institution (BOFI) Decree of 1991 and the failed Banks (Recovery of Debt) and Financial malpractices in Banks Decree No. 18, the Bank was further strengthened in areas of banking supervision and examination, monetary, management and enforcement of prudential standard in banking. It also confers enormous powers on the bank to

prosecute those who contributed to the failure of banks and to recover the debt owned to the failed banks.

### **3.2.2 THE OBJECTIVES OF CENTRAL BANK**

- \* The Central Bank of any country issues official currency of that country.
- \* Also to maintain the external value of the official currency.
- \* To promote monetary stability and sound financial system.
- \* To act as Banker and financial adviser to the federal or central government of such a country.
- \* To act as banker to other banks.

### **3.3 THE ROLES OF THE CENTRAL BANK**

The Central Bank of any country performs either a statutory role or developmental role. These roles shall be discussed as follows:

- Debt management: The Central Bank manages the country's domestic and external debt of the Central government in conjunction with the Federal Ministry of Finance.
- Currency issue and distribution: The Banks is by law the sole authority to issues notes coins in the country, hence has to ensure its distribution.

- Central Bank acts as government banker and financial advisor. For instance, it keeps the central state and local government account, manages government borrowing through treasury bills and stocks.
- It is the banker's bank: All commercial banks must maintain current account with the Central Bank.
- Act as lenders of last resort.
- Manages the country's foreign exchange and reserves and
- Manages the monetary system of the country.

### **3.3.2 DEVELOPMENT ROLES OF CENTRAL BANK**

The Central Bank also performs some developmental and promotional activities. They include:

- \* Promoting growth of financial market which includes money and capital markets. Money market is created to mobilize short-term funds while capital market trades long-term securities. The bank initiated the introduction of money market instrument such as treasury bills, treasury certificate and developmental stocks and bonds in the capital market.
- \* The bank promotes and support specialized institutions. Such as Nigerian Industrial Development Bank (NIDB), Agricultural cooperative Bank etc.

- \* Central Bank also promotes growth in terms of rural banking, agriculture and manufacturing and small scale enterprises.
- \* Central Bank established special schemes and funds unit loan scheme such as NERFUND – National Economic Reconstruction Fund, Agricultural Credit Guarantee Scheme (ACGS), Re-financing and Rediscounting Facility (RRF) and the Foreign Input Facility (FIF).

### **3.4 COMMERCIAL BANKING**

Commercial banks are financial institutions where money and other valuables are kept for safe custody. They are monetary institutions owned by private business or government of any country for the purpose of making profit for their shareholders. They offer retail banking services hence they borrow money from depositors and re-lend it at higher rates of interest to other persons. The commercial banks lend money to private persons, companies or firms, public corporations, the money market and the government.

#### **3.4.1 THE STRUCTURE OF COMMERCIAL BANKS IN NIGERIA.**

Commercial banks structure in the developed countries of the world and that of developing nations can be described as the branch banking

and urban concentration of banks. The ownership structures have also varied over time.

- 100% privately owned indigenous banks.
- Government owned banks.
- Government and individual banks.
- Mixed banks with majority indigenous shareholders.
- Mixed banks with majority foreign shareholders.

### **3.4.2 REASONS WHY GOVERNMENT PARTICIPATE IN**

#### **COMMERCIAL BANK.**

- Most foreign banks give out loans to sectors that pay back faster than other sectors.
- The collapse of banks caused loss of confidence in depositors to save in banks.
- These indigenous banks need government assistance in providing and creating credit facilities to their Nigerian and foreign business operating in the country.

### **3.5 THE ROLES OF COMMERCIAL BANKS**

Commercial Banks generally provide various services to their corporate and personal customers. Such services include:

- Operations of Account by their Customers. These accounts are savings account (Allows the customer to withdraw in presentation of a passbook), current account (customer can withdraw with a cheque booklet on demand). It is also called demand deposit and fixed deposits known as line deposit.
- Granting of loans and advances to their customers and non-customers alike in possession of collateral. The loan attracts varying length of interest.
- Commercial Banks render corporate financial services.
- Provision of foreign exchange services
- The act as agents of payment
- They act as referees.
- Providing night saving facilities to their customers.
- Buying and selling of shares and stocks on behalf of their customers.
- Advising their customers on specialized insurance scheme and other roles.

### **3.6 COMMERCIAL BANKS CREDIT CREATION**

The creation of credit or deposits is one of the most important functions of Commercial Banks. As a profit oriented Limited Liability Company, commercial banks have as their primary objective the maximization of



profit, hence they accept cash on demand deposits and advance loans on credit to customers. When a bank advances a loan, the customer is not given the amount in cash. The bank opens a current account in the customer's name and allows him to operate the account with the use of cheques. This way, the bank creates deposit by keeping small cash in reserve as stipulated by the central bank and lending the remaining amount to their customers. The credit creation ability of commercial banks is based on the deposit multiplier process.

- **Assumptions**

For credit creation to be possible, the following assumptions must be fulfilled.

- There must be cash deposits.
- There is a cash reserve ratio given by the central bank
- There must be no leakages.
- There must be no buffer stock.
- Cheques are used for all transactions.
- There must be an efficient clearing system.

- **The Process Of Credit Creation**

Credit creation process of commercial banks operates in a multi-bank system where there is more than one bank in the system. There is a certain percentage of the bank deposit which the central bank

mandates all banks to keep. The percentage varies in line with the monetary policy the central bank wants to follow. This percentage, known as the cash reserve ratio, is required to safeguard the customer's deposits and also to prevent bank failures. The remaining deposits after the deductions of the reserve ration available to the commercial banks to loan out in order to be able to create credit.

**Illustration:** Assuming Daniel Boston deposited a sum of N20,000.00 with LAND MARK BANK PLC and the reserve requirement ration is 10%. You are to educate the total amount of bank deposits that can be created by the bank.

### **LANDMARK BANK PLC**

Cash reserve	2,000	Deposit	20,000
Loan	18,000		
	<u>20,000</u>		<u>20,000</u>

#### **3.6.1 LIMITATIONS TO CREDIT CREATION**

Though banks could create credits, they are however, faced with certain limitations. Such limitations include:

- Amount of cash deposits available
- Legal reserve ratio
- Leakages
- Banking habit of the people
- Behaviour of other banks
- Cheque clearance

#### **3.7 CONTROL OF COMMERCIAL BANKS BY THE CENTRAL BANK (THE APPLICATION OF MONETARY POLICY)**

The central bank, with the use of monetary instruments controls the commercial banks in the following ways:

- Open market operations (Omo): This is the buying and selling of government securities and treasury bills by the central banks from

and to commercial banks and general public. It is the banks most effective tools of controlling and regulating money supply.

- Bank rate also known as discount rate. It is the rate at which the central bank lends money to the commercial banks and other financial institutions.
- Directives, where the bank gives instruction to the commercial banks based on government policies.
- Special deposits.
- Moral suasion

#### **4.0 CONCLUSION**

Commercial banks play a big role in the economic development of a country.

Encouraging savings, capital provision, encourages chequing system, encourages investment, assist international trader.

#### **5.0 SUMMARY**

Other economic development activities of commercial banks include – lives financial and management advice to their customers. Issues travelers cheques to ease the burden of businessmen carrying large sum of money.

They also help discount bills of exchange before maturity dates.

#### **6.0 TUTOR- MARKED ASSIGNMENT**

- Distinguish between central bank and commercial bank in the following perspectives:
- Definition
- Roles

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT FOUR: ECONOMIC INTEGRATION**

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- 3.0 Main content
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  - 3.2 Examining the cost and benefits of integration arrangements.
  - 3.3 Economic community.
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    - 3.3.2 Sub-regional Interests and Global Environment
  - 3.4 Prevailing Economic integration problems.
  - 3.5 Other forms or levels of Economic integration
  - 3.6 The structure of the European Union and its implications for firm within and outside Europe.
  - 3.7 The emergence of other integration agreement, especially in the Americas and Asia in brief.
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

Economic integration refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. This is meant in turn to lead to lower prices for distributors and consumers (as no customs duties are paid within the integrated area) and the goal is to increase trade.

The trade stimulation effects intended by means of economic integration are part of the contemporary economic theory of the second best; where in theory, the best option is free trade, with free competition and not trade barriers whatsoever. Free trade is treated as an idealistic option, and although realized within certain developed states, economic integration has been thought of as the “second best” option for global trade where barriers to full free trade exist.

### **ETYMOLOGY:**

In economics, the word integration was first employed in industrial organization to refer to combinations of business firms through economic agreement cartels, concerns, trusts and mergers – horizontal integration referring to combinations of competitors. Vertical integration to combination of suppliers with customers. In the current sense of combining separated economics into large economic regions, the use of the word integration can be traced to the 1930s and 1940s. Fritz



Machlup, credits Eli Heckscher, Her Bert Gaeduike and Gertvon Enyern as the first users of the term economic integration in its current sense. According to Machlup, such usage first appears in the 1935 English translation of Hecksher's 1931 book (Mercantilism in English), and independently in Gaedicke's and Von Eyern's 1933 two-volume study die productions wirtschaftliche integration Europas.

## **2.0 OBJECTIVES OF THE UNIT**

After studying this unit, you should be able to:

- Explain what is meant by economic integration.
- Examine the cost and benefit of integration arrangements.
- Discuss economic community as a form of economic integration.
- Dilate copiously the emergence of Economic Community of West African State (ECOWAS).
- Examine the sub-regional interest and global environment.
- Discuss the prevailing economic integration problems.
- Look at other levels/forms of economic integration.
- In briefly, explains the structure of the European Union and its implications for firms within and outside Europe.
- Discuss the emergence of other integration agreement, especially in the American and Asia in brief.

### **3.0 MAIN CONTENTS**

#### **3.1 DEFINITION AND MEANING OF ECONOMIC INTEGRATION**

Regional groupings based on economic became increasingly important in the 1990s. Thirty-two such grouping are estimated to be in existence; three in Europe, four in the Middle East, five in Asia and ten each in Africa and the Americas. Trade within the three major blocs, the American, European, and Asian, has grown rapidly, while trading among these blocs or with outsiders is either declining or growing far more moderately.

Some of these groupings around the world have the superstructure of nation states (such as the African Union, European Union etc), some (such as the Asian free trade zone area) are multinational agreements that may be more political arrangements than cohesive trading blocs at present.

Therefore, the coming together of neighbouring countries to pursue common economic objective is regarded as economic integration. It is also defined as a trade unification between different states the partial or full abolishing of customs tariffs on trade taking place within the borders of each state.

An increase of welfare has been recognized as a main objective of economic integration. The increase of trade between member states of

Economic Unions is meant to lead to the increase of the GDP of its members, and hence, to better welfare. This is one of the reasons for the global scale development of economic integration, a phenomenon now realized in continental blocks such as ASEAN, NAFTA, SACN, the European union, and the African union and Eurasian economic community, and proposed for intercontinental economic blocks, such as the comprehensive economic partnership for East Asia and the Transatlantic free trade Asia.

The other objective for the state purchasing economic integration is to become or stay regionally and globally competitive, as the goods of the states outside economic blocks become more expensive.

### **3.2 THE COST AND BENEFIT OF INTEGRATIVE ARRANGEMENT**

The benefits of free trade and stable exchange rates are available only if nation-states are willing to give up some measure of independence and autonomy. This has resulted in increased economic integration around the world with agreement among countries to establish links through movement of goods, servers, capital, and labour across borders. Some predict, however, that the regional trading blocs of the new economic world order will divide into a handful of protectionist super-state that, although liberalizing trade among members, may raise barriers to external trade.

Economic integration is best viewed as a spectrum. At one extreme we might envision a truly global economy in which all countries share a common currency and agreed to a free flow of goods, services, and factors of production. At the other extreme would be a number of closed economies, each independent and self sufficient. The various integrative agreements in effect to day lie along the middle of this spectrum. The most striking examples of successful integration is the historic economic unification that is taking place around the world today. Countries, however, give priority to maintaining economic self-sufficiency and independence. Their ranks have thinned considerably in the 1990s with countries such as Vietnam, becoming heavily involved in international trade and investment. Even North Korea is now considered as a great future market by companies such as Coca-cola .

### **3.3 THE ECONOMIC COMMUNITY AS A FORM OF ECONOMIC INTEGRATION**

This is the ultimate level of economic integration. This arrangement combines all the principles of free trade area, customs union and common market and other socio-cultural cooperation. Indeed, it is the highest level of economic integration with a comprehensive set of objectives meant to uplift member states in all spheres of living.

It is therefore important to note that it is this level of integration that the Economic Community of West African States (ECOWAS) hopes to achieve.

However, before giving into the nitty gritty of ECOWAS, in traditional economic analysis of integration, there occurs two types of effects, known as the static and dynamic effects. The static effects include trade creation which is a situation whereby production of goods shift from a high cost production to a low cost production within the member states, has enable the low cost producers to fill the demand of all member states and trade diversion occurs when a member state stops buying from a low cost non-member producer to buy from a high-cost member producer.

The dynamic effects of economic integration relate to those expected to occur structurally in the economy on the long run, and amongst these are economies of scale which occurs as a result of a wider market resulting in dynamic efficiency and higher productivity thereby offsetting any initial trade diversion effect and the other effect is coordinated industrial planning, which ensures efficient utilization of the resources within the integrating countries in the long run.

In a country, there are many who would argue that given the static effect of integration, any attempt at integrating among West African

states is bound to lead to loss of economic welfare, however, this argument can be debunked on the premise that static effect can turn into a dynamic trade creation effect on the long run.

### **3.3.1 THE EMERGENCE OF ECONOMIC COMMUNITY OF WEST AFRICAN STATE (ECOWAS).**

The body was unified in May 1975 by the treaty of Lagos signed by 15 states with the objective of promoting trade cooperation and self reliance in West Africa. Outstanding protocols bringing certain key features of the treaty into effect were ratified in November 1976. Cape Verde became the 16<sup>th</sup> members in 1977.

According to the articles of the treaty, the community aims at promoting cooperation and development in the fields of industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial relations and socio-cultural matters. The specific steps to be taken to accomplish these broad objectives include the following:

- a. Elimination of customs and other duties on both import and exports of member states.
- b. Harmonization of agricultural policies and promotion of common projects among member states, especially in the field of marketing research and agro-industrial enterprises.

- c. Execution of joint development project in the areas of transport communication, energy and other infrastructural facilities.
- d. Establishment of funds for cooperation, compensation and development.
- e. Abolition of quantitative and administrative restriction on trade among member states.

The body is made up of the following organs. The authority, which is made up by heads of state and government and whose chairman is drawn from members on rotational basis. It also meets once in a year. There is also the council of members which consist of two representatives from each country with a chairman drawn up from amongst its members; they also on rotational basis meet twice in a year and is saddled with the responsibility of running the body. The treaty also provides for a tribunal whose composition and the authority of head of states and government determines competences. It interprets the provisions of the treaty and settles dispute referred to it by member states. Beside these, there is the secretariat, which sees to the day to day running of the body headed by an elected executive secretary for a four-year term, which may be re-elected only once.

There are also four specialized commission namely:

- (1) Social and cultural affair.
- (2) Industry, agricultural and natural resources.

- (3) Trade customs, immigration, monetary and payment
- (4) Transport, telecommunication and energy.

To realized some of the aims of Lagos treaty, elimination of tariffs and other obstacles to trade among members states and the establishment of a common external tariffs are planned over a period of 15 years, and at the 1978 conference, it was decided by the authority that with effect from 28 May 1979 no member state might increase its custom tariffs on food from other members which was regarded as the first step towards abolition of customs tariff within the community.

In 1983, the conference of heads of state and government decided to initiate studies on the formation of a single ECOWAS monetary zone, which led to the adoption of as the sub region currency in 1999.



### **3.3.2 SUB-REGIONAL AND GLOBAL GOVERNMENT**

Before the existence of ECOWAS, there existed some sub-regional bodies that catered for certain socio-economic interest, some of which are the union Douaniere et Economique de L'Afrique Central (UDEAC), for example, the Chad Basin Commission. Their existence allows for less attention to be paid to ECOWAS, and allows for continued diversion of resources that could have been channeled into ECOWAS for a more virile body. The global environment is also not conducive. For example, the relationship between the developed and less developed countries with regards to transfer of huge resources on a large scale to enhance development of ECOWAS in particular and the less developed countries in general.

Besides these defined problems, there are also the lack of infrastructural facilities in place to enhance smooth cooperation amongst member states, such as electricity, good communication network, good network of roads, etc.

Countries of the subregional have various degrees of development inequalities, and resources base differentials implies that income gap with the region would grow widely with time but provision of the funds for cooperation, compensation and development by ECOWAS will ensure that the distributional problems are eliminated.

### **3.4 THE PREVAILING ECONOMIC INTEGRATION PROBLEMS OR OBSTACLES**

Obstacles standing as barriers for the development of economic integration include the desire for preservation of the control of tax revenues and licensing by local powers, sometimes requiring decades to pass under the control of supranational bodies. The experience of 1990 – 2009 has shown radical change in this pattern, as the world has observed the economic success of the European union. So now no state disputes the benefits of economic integration. The only question is when and how it happens, what exact benefits it may bring to a state, and what kind of negative effects may take place.

Economists argue that the negative consequences of economic integration include the suppression of local industries causing unemployment. Others say that there is no other way to exist in the current global economic environment for a state if it wishes to prosper. The conclusion is to prepare a state for economic integration before it will actually take place. There are different models of how to do it. The “South East Asian model” of economic integration is export oriented, while the “Latin American” one has fully open doors to imports consequently forcing local manufacturers to increase their standards of production.

However, from the fore-going, it is pertinent, to note that despite the laudable objectives of the economic integration, it has been faced with several problems ranging from economic, political, cultural, monetary and financials well as subregional interest and global environment as explained above.

### **3.5 OTHER LEVELS OR FORMS OF ECONOMIC INTEGRATION**

#### **a. The Free Trade Area.**

The free trade zone or area is the least restrictive and loosest form of economic integration among countries. In a free trade area, all barriers to trade among member countries are removed. Therefore, goods and services are freely trade among member countries in much the same way that they flow freely between, for example, South Caroling and New York, Ghana and Nigeria etc. In most cases, rules of origin are specified within this area, to control trade of products manufactured in the area in order to prevent trade deflection redirection of trade from a low tariff area to high tariff area in order to benefit from tariff differentials.

**b. Custom union**

This is the next stage of integration, whereby countries agree to impose a common tariff on goods coming from non-members as well as maintain a free trade amongst them. In other words, it has all the features of a free trade area and also the imposition of common tariff on goods from non-members.

**c. Common market**

The third level of integration involves a situation whereby besides the maintenance of common external tariff, and free external trade (Customs union) amongst its members, it allows for the free movement of factors of production like labour and capital among members.

d. **The fourth** level of economic integration is the economic community as was discussed in a broader sense above.

**3.6 THE STRUCTURE OF THE EUROPEAN UNION AND ITS IMPLICATIONS FOR FIRMS WITHIN AND OUTSIDE EUROPE.**

The European union has several governing bodies. One of which is the EU parliament. The parliament has 626 members elected by popular vote in their home nation. The parliament has power to veto membership applications and trade agreements with non-EU Countries. The executive body of the EU is the European Commission,

headquarters in Brussels. The commission may be likened to the executive branch of the US. Government. It is composed of 20 commissioners (two from each larger member country and one from each smaller member). The commissioners oversee 23 directorates (or departments) such as agriculture, transportation, and external relations. The council of ministers has the final power to decide EU actions. There are a total of 87 votes in the council. The presidency rotates among the members in every six months. The court of justice is composed of 15 judges based in Luxembourg. The European parliament is composed of 626 members elected by popular vote in member countries.

### **THE IMPLICATIONS OF INTEGRATED EUROPEAN MARKETS.**

Perhaps the most important implication of the four freedoms for Europe is the economic growth that is expected to result. Several specific sources of increased growth have been identified. First there will be gains from eliminating the transaction costs associated with border patrols, customs procedures, and so forth. Second, economic growth will be spurred by the economies of scale that will be achieved when production facilities become more concentrated. Third there will be gains from more intense competition among EU companies. Fourthly, the proposals have important implications for firms within and outside Europe. There will be substantial benefits for those firms

already operating in Europe because their operations in one country can now be freely expanded into others and their products may be freely sold across borders.

### **3.7 THE EMERGING OF OTHER INTEGRATION AGREEMENT ESPECIALLY IN AMERICANS AND ASIA.**

#### **ASIA**

The unprecedented economic growth in Asia during the last couple of decades has shifted the world economy's centre of gravity from the West to the East. As the Asian economies have grown larger and become more complex they have also become more integrated with each other and with rest of the world.

Nevertheless, despite sound macro-economic fundamentals and being far from the epicenter of the recent financial economic crisis on the region has been swifter and deeper than for other regions the expansion in intra-regional economic integration has not seen an increase in regional economic co-operation, particularly at broader or pan Asian level, which has been lagging behind.

The united states and Canada signed a free trade agreement that went into effect January 1<sup>st</sup>, 1989. The agreement created a 15 trillion continental economy. The two countries had already had sectoral free trade arrangements; for example, one for automotive products has

existed for 23 years. Even before the agreement, however, the United States and Canada were already the world's largest trading partners, and there were relatively few trade barriers. Although there have been some dislocations, due to production consolidation, for example this bilateral agreement opened opportunity to create 750,000 jobs in the United States and 150 in Canada amidst a whole lot of other benefits..

Negotiations on a North American Trade agreement (NAFTA) began in 1991 to create the world's largest free market, with 390 million consumers and a total output of 8.6 trillion. The major constraints to this development had been fear of job loss to Mexico and other neighbouring countries, labour and legislative protection. Trade between Canada, Mexico, United States and the Latin America has improved the area of import substitution which foster fast economic growth. There were further development of other Alliances such as the Caribbean Basin initiative and the Enterprises for the American initiative (EAI).

#### **ASSESSMENT EXERCISE**

- What do you understand by the term economic integration?
- Highlight the various levels of economic integration you know.

#### **4.0 CONCLUSION**

This unit has been broadly dealt with to expose you to economic integration, the cost and benefits of integrative arrangements, the

emergence of the ECOWAS and subregional interest. You have also learnt about the prevailing barriers and problems to economic integration. The unit has also showcase the structure of the European union and its implications for firm within and outside Europe.

## **5.0 SUMMARY**

An economic arrangement between different region marked by the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies. The aim of economic integration is to reduce costs for both consumers and producers, as well as to increase trade between countries taking part in the agreement. There are varying levels of economic integration including preferential trade agreements (PTA), free trade areas (FTA), custom unions, common markets and economic and monetary unions.

A number of arguments surround economic integration. They center on trade creation and trade diversion, reduced import prices increased competition and economies of scale, higher factor productivity and Regionalism Versus Nationalism.

## **6.0 TUTOR-MARKED ASSIGNMENT**

- \* List and explain the various levels of economic integration you know.

## **ANSWERS TO SELF ASSESSMENT EXERCISE**



- Economic integration refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. It is the coming together of neighbouring countries to purchase common economic objectives.
- There are several associations, which make collective economic action effective. These associations form the various levels of economic integration. They are:
  - Free trade zone.
  - Custom union
  - Common market and
  - Economic community.

## **7.0 REFERENCE/ FURTHER READING**

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## **MODULE TWO**

- UNIT 1: INTERNATIONAL LOGISTIC AND SUPPLY CHAIN  
MANAGEMENT
- UNIT 2: INTERNATIONAL HUMAN RESOURCES MANAGEMENT
- UNIT 3: INTERNATIONAL ACCOUNTING AND TAXATION
- UNIT 4: STRATEGIC PLANNING IN INTERNATIONAL BUSINESS

### **UNIT 1: INTERNATIONAL LOGISTICS AND SUPPLY CHAIN MANAGEMENT**

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## **1.0 INTRODUCTION**

Supply chain management and international logistics is aimed at managing complex and dynamic supply and demand networks (Wieland/Wallenburg, 2011). Supply chain management (SCM) is the management of a network of interconnected business involved in the ultimate provision of product and service packages required by end customer. International logistics and supply chain management spans all movement and storage of raw materials, work in-progress, inventory, and finished goods from point of origin to point of consumption.

APICS Dictionary defines supply chain management as the “design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally.

## **2.0 OBJECTIVE OF THE UNIT**

After studying j this unit, you should be able to do the following:

- Define international logistics and supply chain management.
- Examine the major problems address by supply chain management.

- Identify the major activities and functions of supply chain management.
- Trace the historical development in supply chain management.
- Discuss supply chain business process integration.
- Highlight the various theories of supply chain management.
- Itemize the various components of supply chain management.
- Examine global supply chain management

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITIONS AND MEANING OF INTERNATIONAL LOGISTICS AND SUPPLY CHAIN MANAGEMENT**

International logistics is design and management of system that controls the flow of materials into, through, and out of the international corporation. It encompasses the total movement concept by covering the entire range of operations concerned with goods movement, including therefore both exports and imports simultaneously.

More common accepted definitions of supply chain management are:

- Supply chain management is the systematic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across business within the supply chain for the purpose of improving the long-term performance of the

individual companies and the supply chain as a whole (Mentzer et al, 2011).

- A customer focused definition is given by Hines (2004. p76) “Supply chain strategies require a total systems view of the linkages in the chain that work together efficiently to create customer satisfaction at the end point of delivery to the consumer. As a consequence cost must be lowered throughout the chain by driving out unnecessary costs and focusing attention on adding value. Through out efficiency must be increased, bottlenecks removed and performance measurement must focus on total systems efficiency and equitable reward distribution to those in the supply chain adding value. The supply chain system must be responsive to customer requirements.

### **3.2 PROBLEMS ADDRESSED BY SUPPLY CHAIN MANAGEMENT**

Supply chain management must address the following problems:

- a. **Distribution network configuration:** Number, location and network missions of suppliers, production facilities distribution centres, warehouses, cross-docks and customers.



- b. **Distribution strategy:** Questions of operating control (centralized, decentralized or shared); delivery scheme and direct shipment, pool point shipping etc.
- c. **Trade offs in logistical activities:** The above activities must be well coordinated in order to achieve the lowest total logistics cost. Trade offs may increase the total cost of only one of the activities is optimized. For example, full truckload (FTL) rates are more economical on a cost per pallet basis than less truckload (LTL) shipments.
- d. **Information:** Integration of process through the supply chain to share valuable information, including demand signals, forecasts, inventory, transportation, potential collaboration etc.
- e. **Inventory management:** Quality and location of inventory, including raw materials, work-in-progress. (WIP) and finished goods.
- f. **Cash flow:** Arranging the payment terms and method logics for exchanging funds across entities within the supply chain.

### **3.3 MAJOR ACTIVITIES/ FUNCTIONS OF SUPPLY CHAIN**

#### **MANAGEMENT**

Supply chain management is a cross function approach including managing the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and the movement of finished goods out of the organization and toward the end-consumer.

As organizations strive to focus on core competencies and becoming more flexible, they reduce their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other entities that can perform the activities better or more cost effectively.

The effect is to increase the number of organizations involved in satisfying customer demand while reducing management control of daily logistics operations. Less control and more supply chain partners led to the creation of supply chain management concepts. The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus, improving inventory visibility and the velocity of inventory movement.

Several models have been proposed for understanding the activities required to manage material movements across organizational and

functional boundaries. SCOR is a supply chain management model promoted by the supply chain council. Another model is the SCM model proposed by the Global Supply Chain Forum (GSCF). Supply chain activities can be grouped into strategic tactical, and operational levels.

### **3.3.1 STRATEGIC LEVEL.**

- Strategic network optimization, including the number, location, and size of warehousing, distribution centres, and facilities.
- Strategic partners with suppliers, distributors, and customers, creating communication channels for critical information and operational improvements such as crossdocking, direct shipping, and third-party logistics.
- Product life cycle management, so that new and existing products can be optimally integrated into the supply chain and capacity management activities.
- Information technology chain operations.
- Where -to-make and buy decisions.
- Aligning overall organizational strategy with supply strategy.
- It is for long term and needs resource commitment.

### **3.3.2 TACTICAL LEVEL**

- Sourcing contracts and other purchasing decisions.

- Production decisions, including contracting scheduling, and planning process definition.
- Inventory decisions, including quantity, location and quality of inventory.
- Transportation strategy, including frequency routes and contracting.
- Benchmarking of all operations against competitors and implementation of best practices throughout the enterprise.
- Milestone payments.
- Focus on customer demand and habits.

### **3.3.3 OPERATIONAL LEVEL**

- Daily production and distribution planning, including all nodes in supply chain.
- Production scheduling for each manufacturing facility in the supply chain (minute by minute).
- Demand planning and forecasting, coordinating the demand forecast of all customers and sharing the forecast with all suppliers.
- Sourcing planning, including current inventory and forecast demand, in collaboration with all suppliers.
- Inbound operations, including transportation from supplier and receiving inventory.

- Production operations, including the consumption of materials and flow of finished goods.
- Outbound operations, including all fulfillment activities, warehousing and transportation to customers.
- Order promising, accounting for all constraints in the supply chain, including all suppliers, manufacturing facilities, distribution centres and other customers.
- From production level to supply level accounting all transit damage cases etc and managing non-moving, short-dated inventory and avoiding more products to go short dated.

### **3.4 THE IMPORTANCE OF SUPPLY CHAIN MANAGEMENT**

Organizations increasingly find that they must rely on effective supply chains, or networks, to compete in the global market and network economy. In Peter Drucker's (1998) new management paradigms, this concept of business relationships extends beyond traditional enterprise boundaries and seeks to organic entire business processes throughout a value chain of multiple companies.

During the past decades, globalization, outsourcing and information technology have enabled many organizations, such as Dell and Hewlett Packard, to successfully operate solid collaborative supply networks in which each specialized business partner focuses on only a

few key strategic activities (Scott, 1993). This inter-organizational supply network can be acknowledge as a new form of organization.

However, with the complicated interactions among the players, the network structure fits neither “market” nor “hierarchy” categories (Powell, 1990).

Traditionally, companies in a supply network concentrate on the inputs and outputs of the processes, with little concern for the internal management working of over individual players. Therefore, the choice of internal management control structure is known to impact local firm performance (Mintzberg, 1979).

In the 21<sup>st</sup> century, changes in the business environment have contributed to the development of supply chain networks. Technological changes, particularly the dramatic fall in information communication costs, which are significant component of transaction costs, have led to changes in coordination among the members of the supply chain network (Coase, 1998).

### **3.5 HISTORICAL DEVELOPMENTS IN SUPPLY CHAIN MANAGEMENT**

Six major movements can be observed in the evolution of supply chain management studies; creating integration and globalization, specialization phases one and two, and SCM 2.0

### **3.5.1 CREATION ERA**

The term supply chain management was first coined by a U.S. industry consultant in the early 1980s. However, the concept of a supply chain in management was of great importance long before in the early 20<sup>th</sup> century, especially with the creation of the assembly line. The characteristics of this era of supply chain management include the need for large-scale changes, re-engineering, downsizing driven by cost reduction programmes, and widespread attention to the Japanese practices of management.

### **3.5.2 INTEGRATION ERA**

This era was highlighted with the development of Electronic Data Interchanging (EDI) System in the 1960s and developed through the 1990s by the introduction of Enterprise Resource Planning (ERP) Systems. This era has continued to develop into the 21<sup>st</sup> century with the expansion of internet –based collaborative systems.

### **3.5.3 GLOBALIZATION ERA**

The third movement of supply chain management development, the globalization era, can be characterized by the attention given to global systems of supplier relationships and the expansion of supply chains over national boundaries. It is also characterized by globalization of supply chain management in organizations with the goal of increasing

their competitive advantage, value-adding, and reducing costs through global sourcing.

#### **3.5.4 SPECIALIZATION ERA (PHASE I)**

Outsourced manufacturing and distribution. In this era, industries began to focus on “Core competencies” and adopted a specialization model. Vertical integration was abandoned. This era took cognizance of the emergence of vendor-managed inventory (VMI).

#### **3.5.5 SPECIALIZATION ERA (PHASE II)**

Supply chain management as a service: Specialization within the supply chain began in the 1980s with the inception of transportation brokerages warehouse management, and non-asset based carriers and has matured beyond transportation and logistics into aspects of supply planning, collaboration, execution and performance management.

#### **3.5.6 SUPPLY CHAIN MANAGEMENT 2.0**

Building on globalization and specialization, the term SCM2.0 has been coined to describe both the changes within the supply chain itself as well as the evolution of the processes, methods and tools that manage it in this new “era”.



Web 2.0 is defined as a trend in the use of the World Wide Web that is meant to increase creativity, information sharing, and collaboration among users.

### **3.6 SUPPLY CHAIN BUSINESS PROCESS INTEGRATION**

The key supply chain process stated by Lambert 2004 are:

- 3.6.1 Customer Relationship Management (CRM)
- 3.6.2 Customer Service Management (CSM)
- 3.6.3 Demand Management Styles/Procurement Process.
- 3.6.4 Order Fulfillment.
- 3.6.5 Manufacturing Flow Management.
- 3.6.6 Supplier Relationship Management (SRM) Physical Distribution.
- 3.6.7 Product Development and Commercialization.
- 3.6.8 Returns Management/Outsourcing.
- 3.6.9 Customer Level Forecasting (CLF)/ Performance Measurement.

### **3.7 THEORIES OF SUPPLY CHAIN MANAGEMENT**

Currently there is a gap in the literature available on supply chain management studies; there is no theoretical support for explaining the existence and the boundaries of supply chain management. A few authors such as Halldorsson, et al. 2003, Ketchen and Hult (2006 and Lavassani, et al. (2009) have tried to provide theoretical foundations for

different areas related to supply chain by employing organization theories. These theories include:

- Resource-Based View (RBV)
- Transaction Cost Analysis (TCA)
- Knowledge –Base View (KBV)
- Agency Theory (AT)
- Institutional Theory (InT)
- System Theory (ST)
- Network Perspective (NP)
- Material Logistics Management (MLM)
- Just –In-Time Management (JIT)
- Material Requirements Planning (MRP)
- Theory of Constraints (TOC)
- Performance Information Procurement System (PIPS)
- Performance Information Risk Management System (PIRMS).
- Total Quality Management (TQN)
- Time Base Competition (TBC)
- Customer Relationship Management
- Available – To- Promise (ATP)
- Requirement Chain Management

### **3.8 SUPPLY CHAIN CENTROIDS**

In the study of supply chain management, the concept of centroids has become an important economic consideration. A centroid is a place that has a high proportion of a country's population and high proportion of its manufacturing, generally within 805km. In the U.S., two major supply chain centroids have been defined, one near Dayton, Ohio and a second near Riverside California.

### **3.8.1 TAX EFFICIENT SUPPLY CHAIN MANAGEMENT**

Is a business model which consider the effect of tax in design and implementation of supply chain management. As the consequence of globalization, business which is Gross-nation should pay different tax rates in different countries. Due to the differences, global players have the opportunity to calculate and optimize supply chain based on tax efficiency legally. It is used as a method of gaining more profit for company which owns global supply chain.

### **3.8.2 SUPPLY CHAIN SUSTAINABILITY**

Is a business issue affecting an organization's supply chain or logistics network and is frequently qualified by comparison with SECH rating. SECH ratings are defined as social, ethical, cultural and health footprints. Consumers have become more aware of the environmental impact of their purchases and companies SECH ratings and, along with Non-Governmental Organizations (NGOs).

### **3.9 COMPONENTS OF SUPPLY CHAIN MANAGEMENT**

The SCM components are the third element of the four square circulation framework.

The level of integration and management of a business process link is a function of the number and level, ranging from low to high, of components added to the link. Lambert and Cooper (2000) identified the following components: Planning and control, work structure, product flow facility structure, organization structure, information flow facility structure, management methods, power and leadership structure, risk and reward structure, and culture and reward structure.

### **3.9.1 REVERSE SUPPLY CHAIN/REVERSE LOGISTICS**

This is the process of managing the returns of goods. Reverse logistics is also referred to as “After market customer services. In other word, any time money is taken from a company’s warranty reserve or service logistics budget one can speak of a reverse logistics operation.

### **3.9.2 SUPPLY CHAIN SYSTEM AND VALUE**

Supply chain systems configure value for those that organize the networks. Value is the additional revenue over and above the costs of building the network. Co-creating value and sharing the benefits appropriately to encourage effective participation is a key challenges for any supply system.

### **3.10 GLOBAL SUPPLY CHAIN MANAGEMENT**

Global supply chains pose challenges regarding both quantity and value. Supply and value chain trends

- Globalization, increased cross border sourcing, collaboration for parts of value chain with low costs providers, shared service centres for logistical/ and administrative functions and complex problems involved also midsized companies to an increasing degree.

## **4.0 CONCLUSION**

Two major phases in the movement of materials are of logistical importance. The first phase is materials management, or the timely movement of raw materials parts and supplies into and through the firm. The second phase is physical distribution.

The growth of logistics as a field has brought to the forefront three major new concepts: the system concepts the total cost concept and the trade off concept.

## **5.0 SUMMARY**

Basic differences in international Logistics emerge because the corporation is active in more than one country. Country-specific differences occur when the firm within the country faces specific logistics attributes that may be quite different from those experience at home differences and barriers in the areas of infrastructure, transportation services, inventory control, and warehousing services often mean long transit times, high transportation costs, and high inventory levels. Transportation system and intermediaries may vary.

International transportation frequently requires ocean or air freight modes, which many corporation only rarely use domestically. Combination such as the availability of modes include – land bridges, sea bridges, intermodal movements, Ocean shipping (Liner services,

bulk services and tramp service) containers ship, Roll-on –Roll –off (RORO) and Air Shipping Airfreight.

## **6.0 TUTOR –MARKED ASSIGNMENT**

1. What do you understand by supply chain system and value.

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## **UNIT TWO: INTERNATIONAL HUMAN RESOURCES MANAGEMENT**

### **CONTENT**

- 1.0 Introduction
- 2.0 Objective of The Unit
- 3.0 Main Content
  - 3.1 Definition of Human Resources Management and Meaning of International Human Resources Management
  - 3.2 Multinational Companies (MNC) Types of Employees.
  - 3.3 Distinctions between Domestic HRM and International HRM.
  - 3.4 The Sources of Management Recruitment.
  - 3.5 Selection Criteria for Overseas Assignment.
  - 3.6 The Concept of Culture Shock.
  - 3.7 Labour Participation in Management.
  - 3.8 The Roles Played by Labour Unions
  - 3.9 Human Resources Policies.
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 Reference/ Further Reading

## **1.0 INTRODUCTION**

A business organization is the sum of its human resources. To recruit and restrain a pool of effective people for each of its operations requires-personnel planning and staffing, training activities, compensation decisions and attention to labour-management relations. Firms attract international managers from a number of sources, both internal and external. In earlier stages of internationalization recruitment must be external. Later, an internal pool often provides candidates for transfer. The decision then becomes whether to use home-country, host -country or should focus on competence, adaptability and personal traits. Policies should also be set for the compensation and career progression of candidates selected for-out of country assignments. At the same time, the firm must be attentive to the needs of local managers for training and development. Labour can no longer be considered as simply services to be bought and sold. Increasingly, workers are taking an active role in the decision making of the firm and in issues related to their own welfare. Various programmes are causing dramatic organizational change, not only by enhancing the position of workers but by increasing the productivity of the work force as well. Workers employed by the firm usually are local, as are the unions that represent them. Their primary concerns in working for a multinational firm are job security and benefits. Unions

therefore are cooperating across national boundaries to equalize benefits for workers employed by the same firm in different countries of the world.

## **2.0 OBJECTIVE OF THE UNIT**

At the end of this unit, you are required to know the following:

- Definition of human resources management (HRM).
- Meaning of international human resource management (IHRM).
- Differences between domestic human resources management and international human resources managements.
- The sources for management recruitment.
- Selection criteria for overseas assignment
- Culture shock.
- Labour participation in management
- The role played by labour unions
- Human resource policies.
- What international human resources managers do.

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION OF HUMAN RESOURCES MANAGEMENT (HRM)**

This is a set of organizational activities aimed at effectively managing and directing human resources/labour towards achieving organizational goals. Typical functions performed by HRM Staff would be recruitment, selection, training and development, performance appraisal, dismissal, managing promotions and so on.

While international human resources management (IHRM) is defined as a set of activities aimed at managing organizational human resources at international level to achieve organizational objectives and achieve competitive advantage over competitors at national and international level. IHRM includes typical Human Resources functions such as recruitment, selection, training and development, performance appraisal and dismissal done at international level and additional activities such as global skills management expatriate management and so on.

### **3.2 TYPES OF EMPLOYEES IN MULTINATIONAL COMPANIES**

International human resources management is concerned about managing human resources at multinational companies (MNC) and it involves managing three types of employees namely:

- A. Home country employees: Employees belonging to home country of the firm where the corporate headquarters is situated.
- B. Host country employees: Employees belonging to the nation in which the subsidiary is situated.
- C. Third country employees: These are the employees who are not from home country/host country but are employed at subsidiary or corporate headquarters. As an example a American MNC which has a subsidiary at India may employ a French person as the Chief Executive Officer (CEO) to the subsidiary. The French man employed is a third country employee.

### **3.3 DIFFERENCES BETWEEN DOMESTIC HRM AND IHRM**

- Domestic HRM is done at national level and IHRM is done at international level.
- Domestic HRM is concerned with managing employee belonging to one nation and IHRM is concerned with managing employees belonging to many nations (Home country, host country and third country).
- Domestic HRM is concerned with managing limited number of HRM activities at national level and IHRM is concerned with managing additional activities such as expatriate management.
- Domestic HRM is less complicated due to less influence from the external environment. IHRM is very complicated as it is affected heavily by external factors such as cultural distance and institutional factors.

### **3.4 SOURCES OF MANAGEMENT RECRUITMENT**

The location and nationality of candidates for a particular job are the key issues in recruitment. Employers of labour will have to make a decision to recruit from within the company or, in the case of larger corporations, within other product or regional groups, or to rely on

external talent. Similarly, decisions will have to be made whether to hire or promote locally or use expatriates.

Every organization has the option of choosing the candidates for its recruitment processes from two kinds of sources: internal and external sources.

The sources within the organization itself (like transfer of employees from one department to another, promotions) to fill a position are known as the internal sources of recruitment. Recruitment of candidates from all the other sources (like outsourcing agencies etc.) are known as the external sources of recruitment. It applies both at the national level and international level. External sources of recruitment involve press advertisement –journals, newspapers, Educational institutes, placement agencies, employment exchanges, labour contractors, unsolicited applicants, employee referrals and recommendations etc.

### **3.5 EMPLOYEE SELECTION CRITERIA FOR OVERSEA ASSIGNMENT**

When filling a position for an overseas assignment, consider using a team approach. The interview team consist of at least three individuals; a manager from the home country, a manager from the

host country and an human resources representative. The manager from the home country will be able to act as a sponsor to the individual.

- Define assignment goals: Requires broad strategic goals.
- Competency: Leadership ability, technical knowledge experience based on past performance if any.
- Adaptability: Evaluate the culture
- Personal characteristics: Open mindedness, respect for other beliefs, trust, tolerance, control flexibility, patience, social adaptability, initiative, risk-taking, sense of humour, interpersonal interest.
- Spousal communication.

### **3.6 CULTURE SHOCK AS A CRITERIA FOR ACCEPTING OVERSEA ASSIGNMENT**

The effectiveness of orientation procedures can be measured only after managers are overseas. A unique phenomenon they face is culture shock. Culture shock is the term used for the more pronounced reactions to the psychological disorientations that most people experience when they move for an extended period of time into a culture markedly different from their own. Culture shock and its severity may be a function of the individual's lack of adaptability but may equally be



result of the firm's lack of understanding of the situation into which the manager was sent.

Four distinct stages of adjustment exist during a foreign assignment.

They are:

- **Initial Euphoria:** Enjoying the novelty, largely from the perspective of a spectator.
- **Irritation and hostility:** Experiencing cultural differences, such as the concept of time, through increased participation.
- **Adjustment:** Adapting to the situation, which in some cases leads to biculturalism and even accusation from corporate headquarters of "going native".
- **Reentry:** Returning home to face a possibly changed home environment.

### **3.7 LABOUR PARTICIPATION IN MANAGEMENT**

The degree to which workers around the world can participate in corporate decision making varies considerably. Rights of information, consultation and codetermination develop on three levels:

- The shop-floor level, or direct involvement: for example, the right to be consulted in advance concerning transfer.

- The management level, or through representative bodies: for example, work council participation in setting of new policies or changing of existing ones.
- The board level: for example, labour membership on the board of directors.

In some countries, employees are represented on the supervisory boards to facilitate communication between management and labour by giving labour a clear picture of the financial limits of management by providing management with a new awareness of labour's points of view (codetermination).

Other reasons are:

- Improving quality of work life.
- Team building
- Building soundminds as successors.

### **3.8 THE ROLE OF LABOUR UNIONS**

The role of labour unions vary from country to country, often because of local traditions in management-labour relations. The variations include the extent of union power in negotiations and the activities of unions in general. The labour unions centre on collective bargaining over wages, benefits and working conditions for their membership and

on representing their members if management attempt to violate contract provisions.

The labour unions operate within a working environment that promotes work life balance where employees enjoy good jobs with sufficient hours, fair pay and conducive conditions for its members.

The labour union demands equality of opportunity, respect the rights of the individual and foster partnership and trust, in every working relationship.

The labour unions identify, seek to have leaders with positive, productive and respectful relationships with employees and ensure continuity of all core business capabilities.

Internationalization of business has created a number of challenges for labour unions. The main concerns that have been voiced are: (1) power of the firm to move production from one country to another if attractive terms are not reached in a particular market.

- The availability of data, especially financial information, to support unions bargaining positions and insufficient attentions to local issues and problems while focusing on global optimization.
- Difficulty in being heard by those who eventually make the decisions.

### **3.9 HUMAN RESOURCES POLICIES**

These are systems of codified decisions, established by an organization, to support administrative personnel functions, performance management, employee relations and resource planning.

Each organization has a different set of circumstances, and so develops an individual set of human resource policies.

HR policies provide an organization with a mechanism to manage risk by staying up to date with current trends in employment standards and legislation. The policies must be framed in a manner that the companies vision & the human resource helping the company to achieve it or work towards it at all levels benefited and at the same time not deviated from their main objective.

#### **PURPOSE**

HR polices allow an organization to be clear with employees on:

- The nature of the organization
- What they should expect from the organization.
- What organization expects of them.
- How policies and procedures work
- What is acceptable and unacceptable behaviour.
- The consequences of unacceptable behaviour.

## **SELF ASSESSMENT EXERCISE**

- What is the purpose of setting human resource policies?

### **4.0 CONCLUSION**

In this unit you have learnt how human resource management is differentiated from international human resources management. You have also been exposed to the sources of management recruitment, selection criteria for overseas assignment and HR policies formulation.

### **5.0 SUMMARY**

Human resources management is the function of an organization that deals with issues related to people such as compensation, hiring, performance management, organization development at domestic level and international level, safety, wellness, benefits, employee motivation, communication, administration and training. The establishment of policies can help an organization demonstrate, both internally and externally, that it meets requirements for diversity, ethics and training as well as its commitments in relation to regulation and corporate governance.

### **6.0 TUTOR-MARKED ASSIGNMENT**

Critically examine the difference between domestic HRM and IHRM.

## **ANSWERS TO SELF ASSESSMENT EXERCISE**

The purpose of human resources policies are to educate the employees on:

- The nature of the organization
- What organization expects of them.
- What they should expect from the organization
- How policies and procedures work
- What is acceptable and unacceptable behaviour.

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## **UNIT THREE: INTERNATIONAL ACCOUNTING AND TAXATION**

### **CONTENT**

- 1.0 Introduction
- 2.0 Objective of the Unit
- 3.0 Main Content
  - 3.1 The Scope and Nature of International Accounting
    - 3.1.2 Accounting Diversity
  - 3.2 Accounting Differences across Countries
    - 3.2.1 Concept of Fairness
    - 3.2.2 Conservatism and Accrual Concept
    - 3.2.3 Taxation
    - 3.2.4 Valuation Bases
    - 3.2.5 Consolidation
    - 3.2.6 Uniformity in Accounting Standard and Presentation and Foreign Currency Conversion.
  - 3.3 International Taxation.
  - 3.4 Major Conceptual Differences in International Tax System.
  - 3.5 International Tax Systems.
    - 3.5.1 Residency Based Tax System
    - 3.5.2 Exclusion Tax System
    - 3.5.3 Hybrid Tax System
    - 3.5.4 Individual Vs Enterprise Tax System



3.6	Sources of Income for Taxation
3.7	Tax Jurisdictions and Deduction
3.7.1	Thin Capitalization Jurisdiction.
3.7.2	Enterprise Restructure
3.7.3	Credit for Taxes of Other Jurisdictions
3.7.4	Withholding Tax Jurisdiction (WTJ)
3.8	Tax Treaties
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Reading

## **1.0 INTRODUCTION**

Even though MNES have played major roles in internationalizing the uniformity in accountancy as a profession worldwide, key difference can still be noticed from country. The suggested reasons for these differences are: concept of fairness, conservatism and accrual concept, taxation, valuation based, consolidation, uniformity if accounting standard and presentation. In the absence of a standard or an interpretation that specifically applies to a transaction universally, countries must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, IAS 8.11 requires management to consider the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the framework. This elevation of the importance framework was added in the 2003 revision to IAS8. A financial statement should reflect true and fair view of the business affairs of the organization. As these statements one used by various constituents of the society/ regulators, they need to reflect true view of the financial position of the organization, and it is very helpful to check the financial position of the business for a specify position.

Taxation and accounting are fundamental related. The principles by which a firm measures its sales and expenses, its assets and liabilities, all go into the formulation of profits, which are subject to taxation. The tax policies are also becoming increasingly similar. Many of the tax issues of specific interest to officials, such as the avoidance of taxes in high-tax countries or the shielding of income from taxation by holding profits in so-called tax havens.

## **2.0 OBJECTIVE OF THE UNIT**

Upon successful completion of this unit, you should be able to:

- Define and explain international accounting
- Discuss major differences in financial reporting.
- Examine the composition and structure of international taxation.
- Identify major conceptual differences in international tax system.
- Examine the various tax systems internationally.
- Discuss the source of income for international taxation
- Explain the tax jurisdiction systems we have.
- Dilate tax treaties.

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF INTERNATIONAL ACCOUNTING**

International accounting is the international aspects of accounting including such matters as accounting principles and reporting practices in different countries and their classification; patterns of accounting developments; international and regional harmonization, foreign currency translation; foreign exchange risk; international comparisons of consolidated accounting and inflation accounting. Accounting in developing countries; accounting in communist countries; performance evaluation of foreign subsidiaries.

The methods used in the measurement of company generations, accounting principles and practices, vary across countries. The method have a very large impact on how firms operate, how they compare against domestic and international competitors, and how governments view their respective place in society. Accounting principles are however, moving toward more standardization across countries which has been linked to

- A predominance of outside shareholders as providers of finance.

- The lack of interference of law or taxation in financial reporting. More so, the United States accountants' substance overform affects the view of fairness directly.

**3.2.2 Conservatism and Accrual Concept:** This also affects fairness in financial reporting. For example, England and Nigeria, as in many other Anglo-Saxon countries, it is not fully conservative to allow the capitalization of development expenditure as in SAP 13, but it may be reasonable prudent under certain conditions. Moreso, in Europe for instance Davidson Kohlmeier in 1966 and Abel (1969) noted that "profit figures would be consistently lower in France, Sweden, Germany and Netherlands where use of replacement cost was assumed.

**3.2.3 Taxation:** In some countries, taxation regulations are allowed to determine accounting measurements. In countries where accounting rules are the same with tax rules, the problem is not pronounced as in Germany and France. An obvious example is treatment of depreciation. In the unite kingdom and Nigeria, the amounts of depreciation (capital allowance) is quite independent of accounting figures.

**3.2.4 Valuation Basis:** These differ from country to country expectedly has different resultant impact on financial statements across territorial borders. In Nigeria, Ghana, unite kingdom and of course most English speaking countries, the accounting regulation on valuation allowed some degree of flexibility which makes it looks chaotic. The determination of the method to use, whether historical cost or replacement cost is a matter of choice.

**3.2.5 Consolidation:** takes different format allover the world but united states takes a lead in promoting most consolidated method such as;

- equity method.
- The pooling of interest and merger method and
- The normal acquisition had long enjoyed widespread adoption before becoming universal practice.

**3.2.6 Uniformity in Accounting Standard and Presentation,** it is still far from being satisfactory. The standard sometimes confers some flexibility on the accounting. This makes the degree of compliance with different standards varied. For instance in Nigeria, institute of chartered accountant of Nigeria (ICAN) member are required to comply with.

- (a) Technical standards
- (b) international accounting standard IAS
- (c) the international auditing guidelines.

When a company gets involved in trading abroad, it will buy or sell goods in a foreign currency or buy assets and acquire liabilities in a foreign currency

### **3.3 INTERNATIONAL TAXATION (DEFINITION AND MEANING)**

This is the study or determination of tax on a person or business subject to the tax laws of different countries or the international aspect of an individual country's tax laws.

Government usually limit the scope of their income taxation in some manner territorially or provide for offsets to taxation relating to extraterritorial income. The manner of limitation generally takes the form of a territorial, residency or exclusionary system. Some governments in various countries have attempted to mitigate the differing limitations of each of these three broad systems by enacting a hybrid system with characteristics of two or more.

Many governments tax individuals and/or enterprises on income. Such systems of taxation vary widely and there are no broad general rules. These variations create the potential for double taxation (where the same income is taxed by different countries). Income tax systems may impose tax on local income only or on worldwide income.

Generally, where worldwide income is taxed, reductions of tax or foreign credits are provided for taxes paid to other jurisdictions. Limits are almost universally imposed on such credits.

Multinational corporations usually employ international tax specialists, to decrease their worldwide tax liabilities. With any system of taxation, it is possible to shift or re-characterise income in a manner that reduces taxation.

Jurisdictions often impose rules relating to shifting income among community controlled parties, often referred to as transfer pricing rules. Residency based systems are subject to taxpayer attempts to defer recognition of income through use of related parties. A few jurisdictions impose rules limiting such deferral (Anti-deferral” regime.) deferral is also specifically authorized by some governments for particular social purposes or other grounds. Agreement among governments (treaties) often attempt to determine who should be entitled to tax what. Most tax treaties provide for at least a skeleton mechanism for resolution of disputes between the parties.

Systems of taxation vary among countries and governments, making generalization difficult. Specifics are intended as examples, and relate to particular governments and not broadly recognized multinational rules. Taxes may be levied on varying measures of income, including



but not limited to net income under local accounting concepts, gross receipts, gross margins (sales less costs of sales), or specific categories of receipts less specific categories of reductions.

Jurisdictions often impose different income based levies on enterprises than on individuals. Entities are often taxed in a unified manner on all types of income while individuals are taxed in differing manners depending on the nature or source of the income. Many jurisdictions imposed tax at both an entity level and at the owner level on one or more types of enterprises.

In order to simplify administration or for other agendas, some governments have imposed “deemed” income regimes. These regimes tax some class of taxpayers according to tax system applicable to other taxpayers but based on a deemed level of income, as if earned by the taxpayer. Disputes can arise regarding what levy is proper.

### **3.4 OTHER MAJOR CONCEPTUAL DIFFERENCES IN INTERNATIONAL TAX SYSTEMS**

These include, but are not limited to assessments versus self-assessment means of determining and collecting tax; methods of imposing sanctions for violating; sanctions unique to international aspects of the system; mechanism for enforcement and collection of tax; and reporting mechanisms.

### **3.5 TAX SYSTEMS**

Governments usually limit the scope of their income taxation in some manner territorially or provide for offsets to taxation relating to extraterritorial income. The manner of limitation generally takes one of three forms:

Territorial tax system.

A few countries tax only income earned within their borders. For example, the Hong Kong Inland Revenue Ordinance (HKIRO) imposes income tax only on income earned from a business or source within Hong Kong. Such systems tend to tax residents and non residents alike. The key problem argued for this type of territorial system is the ability to avoid taxation on portable income by moving it offshore. This has led governments to enact hybrid systems to recover lost revenue.

#### **3.5.1 RESIDENCY BASED TAX SYSTEM**

Most income tax systems impose tax on worldwide income of residents, and impose tax on the income of non residents from certain sources within the country. Prime examples of such residency taxation in the United States and taxation in the United Kingdom. Residency based systems face the daunting tasks of defining resident and characterizing the income of non-residents. Such definitions vary by country and type of tax payer. Examples include:

- The U.S. provides lengthy, detailed rules for individual residency covering – periods establishing residency (including a formula calculation involving three years, start and end date of residency and exceptions for transitory visits, medical conditions etc.
- UK establishes three categories: non-resident, resident, and ordinarily resident but not ordinarily resident.
- Switzerland residency may be established by having a permit to be employed in Switzerland for an individual who is employed.

### **3.5.2 EXCLUSION TAX SYSTEM**

Many systems provide for specific exclusion from taxable (chargeable) income. For example, several countries, notably Cyprus Netherlands and Spain, have enacted holding company regimes that exclude from income dividends from certain foreign subsidiaries of corporations. These systems generally impose tax on other sort of income, such as interest or royalties, from the same subsidiaries. They also typically have requirements for portion and time of ownership in order to qualify for exclusion.

The Netherlands offers a “participation exemption” for dividends from subsidiaries of Netherlands companies. Dividends from all Dutch subsidiaries automatically qualify. For other dividends to qualify, the Dutch shareholder or affiliates must own at least 5% and the subsidiary must be subject to a certain level of income tax.

### **3.5.3 HYBRID TAX SYSTEM**

Some governments have chosen for all or only certain classes of tax payers, to adopt systems that are a combination of territorial, residency , or exclusionary. There is no pattern to these hybrids. The following are examples:

- The U.S. allows individuals earning income from their personal services outside the US—an exclusion of up to U.S & 80,000

(indexed for inflation from a key date) from compensation for such services. Compensation income in excess of this amount is fully taxable to citizens and residents.

- The UK imposes a charge a tax on individuals “resident but not ordinarily resident” in the UK based on income earned in or remitted to the UK.
- Singapore imposes income tax on resident individuals and companies on all income earned in or remitted to Singapore.

#### **3.5.4 INDIVIDUALS VS. ENTERPRISES TAX SYSTEM**

Many tax system, tax individuals in one manner and entities that are not considered fiscally transparent in another.

The differences may be as simple as differences in tax rates, and are often motivated by concerns unique to either individuals or corporations. For example many systems allow taxable income of an individual to be reduced by a fixed amount allowance for other persons supported by the individual (dependents). Such a concept is not relevant for enterprises.

Many systems allow for fiscal transparency of certain forms of enterprises. For example, most countries tax partnership, rather than the partnership itself, on income of the partnership. A common feature

of income taxation is imposition of a levy on certain enterprises. Many countries tax corporations under company tax rules and tax individual shareholders upon corporate distribution.

### **3.6 SOURCES OF INCOME FOR TAXATION**

Determining the source of income is of critical importance in a territorial system, as source. For example, Hong Kong does not tax residents on dividend income received from a non Hong Kong corporation. Source of income is also important in residency systems that grant credits for taxes of other jurisdictions. Such credit is often limited either by jurisdiction or to the local tax on overall income from other jurisdictions.

- Source of income is where the income is considered to arise under the relevant tax system. The manner of determining the source of income is generally dependent on the nature of income. Income from the performance of services (e.g. wages) is generally treated as arising where the services are performed.
- Financing income (e.g. interest, dividends) is generally treated as arising where the user of the financing resides.
- Income related to use of tangible property (e.g. rent) is generally treated as arising where the property is situated.

- Income related to use of intangible property (e.g. royalties) is generally treated as arising where the property is used.
- Gains on sale of real assets are generally treated as arising where the property is situated.

**Income definition:** Some jurisdiction tax net income as determined under financial accounting concept of that jurisdiction with a few, if any modifications. Other jurisdictions determine taxable income without regard to income reported in financial statements.

### **3.7 THE CONCEPT OF TAX DEDUCTIONS JURISDICTION**

Systems that allows a tax deduction of expenses in computing taxable income must provide for rules for allocating such expenses between classes of income. Such classes may be taxable versus non-taxable, or may relate to computations of credits for taxes of other systems (foreign taxes). A system which does not provide such rules is subject to manipulation by potential taxpayers.

By their nature, rules for allocating and apportionment of expenses may become complex. They may incorporate cost accounting or branch accounting principles or may define new principles.

#### **3.7.1 THIN CAPITALIZATION JURISDICTION**

Most jurisdictions provide that taxable income may be reduced by amounts expended as interest on loan. By contrast, most do not provide tax relief for distributions to owners. Various approaches here include limiting deductibility of interest expense to a portion of cash flow, disallowing interest expense on debt in excess of a certain ratio and other mechanisms.

### **3.7.2 ENTERPRISE RESTRUCTURE**

The organization or reorganization of portions of a multinational enterprise often gives rise to events that absent rules to the contrary, may be taxable in a particular system. Most systems contain rules preventing recognition of income or loss from certain types of such events. In the simplest form, contribution of business assets to a subsidiary enterprise may, in certain circumstances be treated as a non-taxable event. The rules on restructuring and structuring tend to be complex.



### **3.7.3 CREDITS FOR TAXES OF OTHER JURISDICTIONS**

Systems that tax income earned outside the systems jurisdiction tend to provide for a unilateral credit or offset for taxes paid to other jurisdictions. Such taxes are generally referred to within the system as foreign taxes.

A credit for foreign taxes is subject to manipulation by planners if there are no limits, or weak limits, on such credit.

Generally, the credit is at least limited to the tax within the system that the tax payer would pay on income earned outside the jurisdiction. The credit may be limited by other jurisdiction or country, based on an effective tax rate or otherwise where the foreign tax credit is limited, such limitation may involve computation of taxable income from other jurisdictions.

### **3.7.4 WITHHOLDING TAX JURISDICTION**

Many jurisdictions require persons paying amounts to non residents to collect tax due from a non-resident with respect to certain income by withholding such tax from such payments and remitting the tax to the government. Such levies are generally referred to as withholding taxes.

## **3.8 TAX TREATIES**

These exist between many countries on a bilateral basis to prevent double taxation (taxes levied twice on the same income, profit, capital, gain, inheritance or other items). It is also known as double taxation agreement, double tax treaties, or tax information exchange agreement (TIEA). Most developed countries have a large number of the tax treaties, while developing countries are less well represented in the worldwide tax treaty network.

#### **SELF ASSESSMENT EXERCISE**

- Itemize the major differences in international reporting.
- Write the following in full (a) SAS (b) IAS (c) IAG

#### **4.0 CONCLUSION**

This unit has showcased your knowledge to the meaning of International Accounting and taxation. You have also learnt about the variations in international reporting standard, the source of income for taxation and the various tax jurisdictions.

#### **5.0 SUMMARY**

A financial statement should reflect true and fair view of the business affairs of the organization. As these statements are used by various constituents of the society/ regulators, they need to reflect true view of

the financial position of the organization, and it is very helpful to check the financial position of the business for a specify position.

Taxation and accounting are fundamental related. The principles by which a firm measures its sales and expenses, its assets and liabilities, all go into the formulation of profits, which are subject to taxation. The tax policies are also becoming increasingly similar. Many of the tax issues of specific interest to officials, such as the avoidance of taxes in high-tax countries or the shielding of income from taxation by holding profits in so-called tax havens.

## **6.0 TUTOR MARKED ASSIGNMENT**

- Discuss the distinction between withholding tax jurisdiction and tax treaties.

## **ANSWER TO SELF ASSESSMENT EXERCISE**

The variation in international financial reporting include:

- Concept of fairness
- Conservatism and accrual concept
- Taxation
- Valuation bases

- Consolidation
- Uniformity in accounting standard and presentation and foreign currency conversion.
- SAS - Statement of Accounting Standard
- IAS – International Accounting Standard
- IAG – International Auditing Guidelines.

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**UNIT FOUR:        STRATEGIC PLANNING IN INTERNATIONAL  
BUSINESS**

**CONTENT**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Strategic Planning In International Business
  - 3.2 Brief History of Strategic Planning In International Business
  - 3.3 Benefit of Strategic Planning In International Business
  - 3.4 Significance of Strategic Planning In International Business
  - 3.5 Expert Insight In Strategic Planning In International Business  
and Warning.
  - 3.6 Developing Core Business Strategy
    - 3.6.1 Internationalizing The Strategy
    - 3.6.2 Globalizing The Strategy and Formulating It
  - 3.7 Strategic Planning Process.
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

## **1.0 INTRODUCTION**

Globalization has become one of the most important strategy issues for managers in the 1990s. Many forces, both external and internal, are driving companies to globalize by expanding and coordinating their participation in foreign markets. The approach is not standardization. However, managers may indeed occasionally be able to take identical concept and approaches around the world, but most often, they must be customized to local tastes. Internally companies must make sure that country organizations around the world are ready to launch global products and programs as if they had been developed only for their market. Managers need to engage in strategic planning to better adjust to the realities of the new market place, understanding the firm's core strategy (i.e. what business they are really in) starts the process, and assessment may lead to adjustments in what business the company may want to be in. In formulating global strategy for the chosen business, the decision makers have to assess and make choices about markets and competitive strategy to be used in penetrating them.

## **2.0 LEARNING OBJECTIVE**

At the end of this unit, it is expected of you to:

- Examine critically strategic planning in international business.

- Discuss the brief history of strategic planning in international business.
- Identify the benefits of strategic planning in international business.
- Dilate the significance of strategic planning in international business.
- Examine the strategic planning process.

### **3.0 MAIN CONTENT**

#### **3.1 STRATEGIC PLANNING IN INTERNATIONAL BUSINESS**

Strategic planning Is essential for business operating overseas. Operating a business venture overseas requires significantly different planning than a domestic venture. The audience to whom you sell your products often have different tastes and preference, the vendors sell products in different currency and the legal regulations may vary when operating overseas. Given the wide range of discrepancies, operating a multinational corporation requires extensive strategic planning.



### **3.2 BRIEF HISTORY OF STRATEGIC PLANNING IN INTERNATIONAL BUSINESS**

Alan M. Rugman, author of the book, "The oxford hand book of international business", explain the biggest evolutionary changes of the multinational corporation occurred during the end of the 19<sup>th</sup> century. Two key US corporations that pared the first international business model were the singer and international. Harvester, and the united fruit company. Singer and international harvester sought the Russian market as a means of purveying their producing whereas the united fruit company sold fruit produced in third-world countries.

### **3.3 BENEFIT OF STRATEGIC PLANNING IN INTERNATIONAL BUSINESS**

Business owners who engage in strategic planning reap several benefits. Planners who do extensive market research and understand the local demographic are most likely to develop products that translate well to the distinct tastes of that region.

For instance, a clothing company designing sweaters for Swedish women will likely use a different colour scheme than the one used for the Brazilian market. From a financial and accounting perspective business engage in strategic planning to avoid the risk of currency transactions. Companies can save money by drafting a forward

exchange contract with vendors Overseas, which specifies the exchange rate in advance. There, companies know exactly how much the goods will cost based on the predetermined agreement as opposed to an amount subject to market forces. Planning also outlines any economic impediments the company might encounter by conducting business with a country. For instance, basic planning could reveal a third-world nation's economic risk of inflation, which could cause the company to seek a vendor with a more stable economy.

### **3.4 SIGNIFICANCE OF STRATEGIC PLANNING IN INTERNATIONAL BUSINESS**

Careful planning is imperative for corporations that wish to conduct business overseas. Several well-known companies have experienced setbacks due to lack of planning. Language barriers are a common obstacle. Michael White, author of "A Short course in international marketing Blunders", cites Tropicana's blunder of listing its orange juice as "Jugo de China" to the Cubans living in Miami. Though "China" means orange, most Cubans took the English interpretation and were not interested in buying "Chinese" juice. As such, Tropicana lost copious amounts of money that could have otherwise been saved with planning.

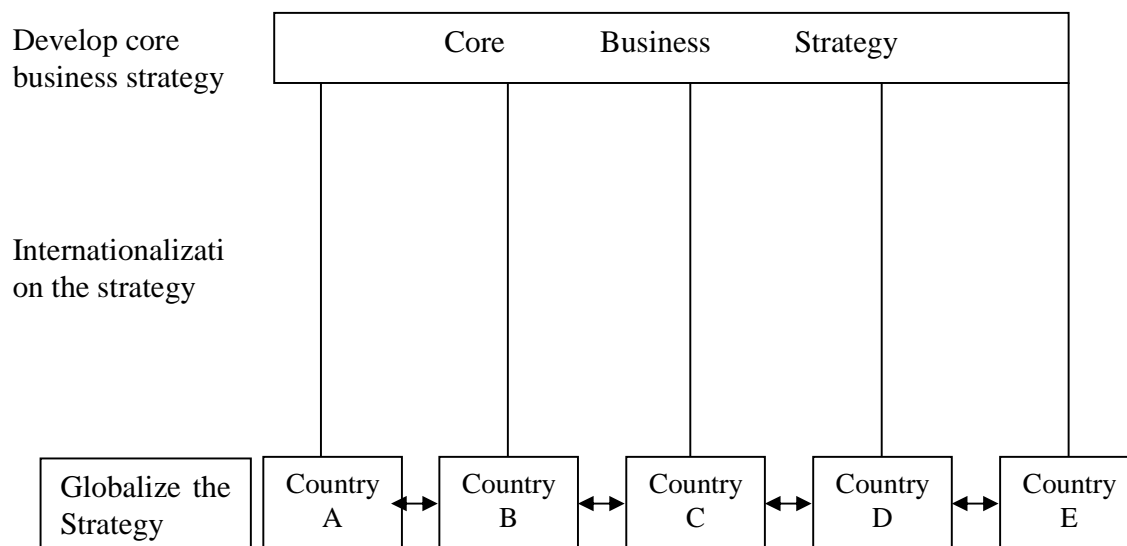
### **3.5 EXPERT INSIGHT ON STRATEGIC PLANNING IN INTERNATIONAL BUSINESS**

Seek outside help to assist with planning; Hire a consultant, ideally one located in the foreign market you are entering. Such assistance typically offers greater knowledge on the local area, customs and culture. Furthermore, foreign consultants often have contact lists of additional assistance for any other issues that may arise.

#### **WARNING:**

No amount of planning will make your business immune to risks. Natural disaster, civil wars and economic crises are just a few examples of sometimes unavoidable conflicts your business could experience.

### 3.6 DEVELOPING CORE BUSINESS STRATEGY



Strategic planning is the act of creating short and long term plans to take a company from where its owners would like it to be.

Strategic plans include growth strategy, human resources development strategies, marketing tactics and international goal setting. There are a number of differences in strategic planning for domestic and international companies, usually as a result of international business larger scale and wider range of uncontrollable market variables. Understanding these differences can guide your strategic planning efforts as your small business grows to an international scale.

### GROWTH STRATEGIES

Growth strategies in strategic plans are likely to look much different between domestic and international business. Domestic companies growth plans are more likely focused on creating new markets or increasing market share in domestic markets. Small domestic companies can only grow their geographic reach to the edge of their home country's borders then they must focus on finding new business in areas they already serve.

International companies, growth strategies, on the other hand, are more likely focused on penetrating new markets in previous untapped countries and regions of the world.

### **3.6.1 INTERNATIONALIZE THE STRATEGY**

Globalization reflects a business orientation based on the belief that the world is becoming more homogeneous and that distinctions between national markets are not only fading but, for some products, will eventually disappear. As a result, companies need to globalize their international strategy by formulating it across markets to take advantage of underlying market, cost, environmental and competitive factors.

Globalization drivers: Both external and internal factors will create the favourable conditions for development of strategy and resource

allocation on a global basis. These factors can be divided into market costs, environmental factors and competitive factors.

### **3.6.2 GLOBALIZING THE STRATEGY AND FORMULATING IT.**

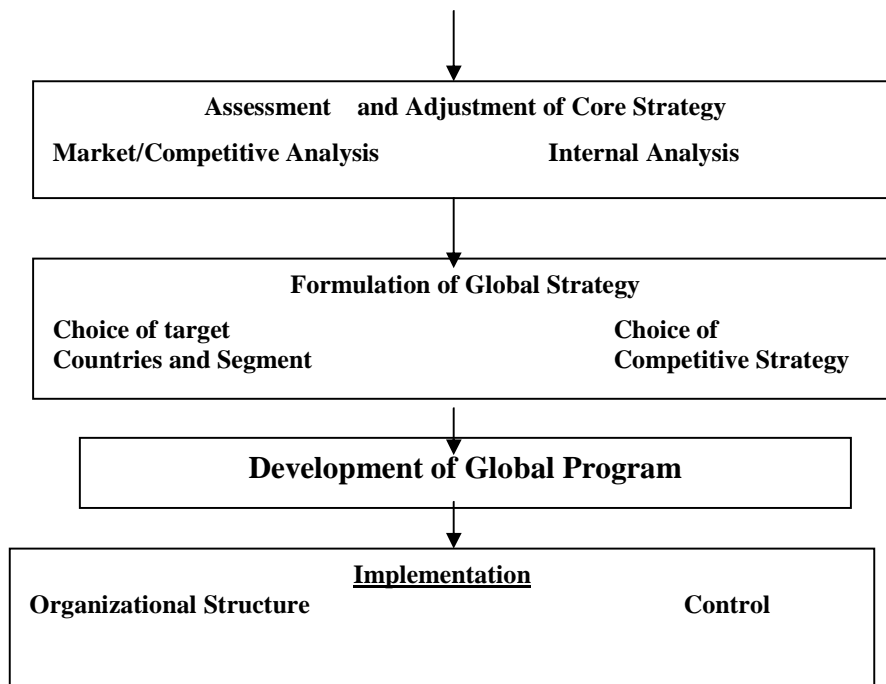
The first step in formulation of global strategy is the choice of markets to be entered or to be penetrated further. In each markets case, decisions need to be made on the extent of entry and the competitive strategy that should be employed.

- Country market choice: A market expansion policy will determine the allocation of resources among various markets. Basic alternatives are concentration on a small number of markets and diversification which is characterized by growth in a relatively large number of markets.

For Global companies, three factors should determine country selection: (1) the stand-alone attractiveness of a market (e.g.China in consumer products due to its size). (2) Global strategic importance e.g Finland in ship building due to its lead in technological development in vessel design, and (3) due to possible synergies (e.g. entry into Latvia and Lithuania after success in the Estonia market given market similarities.

- Choice of competitive strategy, here the manager has three general choices of strategies (1) cost leadership (2) differentiation and (3) focus.
- Segmentation

### 3.7 THE STRATEGIC PLANNING PROCESS



The planning process has to start with a clear definition of the business for which strategy is to be developed. Generally, the strategic business unit (SBU) is the unit around which decisions are based.

Market and competitive analysis: planning on a country by-counting basis can result in spotty worldwide market performance. Processes that focus simultaneously across a broad range of market provide tools to help balance risks, resource requirements, competitive economies of scale, and profitability to gain stronger long-term positions.

Various portfolio models have been proposed as tools for this analysis. They typically involve two measures—internal strength and external attractiveness. As indicators of internal strength, the following variables have been used: relative market share, product fit, contribution margin, and market presence, which would incorporate the level of support by constituents as well as resources allocated by the company itself. Country attractiveness has been measured using market size, market growth rate, number and type of competitors, governmental regulation. Internal analysis:- Organizational resources have to be used as a reality check for any strategic choice. Industrial giants with deep pockets may be able to establish a presence in any market they wish. A survey of multinational corporations revealed that good marketing managers, skilled technicians and production managers were especially difficult to find.

Country market choice: A company must make decisions beyond those relating to market attractiveness and company position.



Segmentation: Effective use of segmentation, that is the recognition that groups within market differ sufficiently to warrant individual approaches, allows global companies to take advantage of the benefits of standardization (such as economics of scale and consistency in positioning) while addressing the unique needs and expectations of a specific target group.

#### Global program development

Decision need to be made regarding how best to utilize the conditions set by globalization drivers within the framework of competitive challenges and the resources of the firm. Decisions will have to be made in four areas (1) the degree of standardization in the product offering (2) the marketing program beyond the product variable (3) location and extent of value adding activities (4) and competitive moves to be made.

#### **SELF ASSESSMENT EXERCISE**

- Examine expert insight on strategic planning in international business.

#### **4.0 CONCLUSION**

In this unit you have learnt about strategic planning in international business, brief history of strategic planning, benefit of strategic planning and the significance of strategic planning in international business. You have also been exposed to how core strategic business strategies can be developed.

## **5.0 SUMMARY**

Product offering, marketing approach, location of value-added activities competitive moves and cross-subsidization forms some of the nitty-gritty of global program development in strategic planning process.

A company with regional or global presence will not have to respond to competitive moves only in the market where it is being attacked. In the multi domestic approach, country organizations had very little need to exchanges ideas. Globalization however requires transfer of information not only between headquarters and country organizations but also between the country organizations themselves. By facilitating the flow of information, ideas are exchanged and organizational values strengthened.

## **6.0 TUTOR -MARKED ASSIGNMENT**

- Discuss the significance of strategic planning in international business.

## **ANSWER TO SELF ASSESSMENT EXERCISE**

- Seek outside help to assist with planning.
- Hire a consultant, ideally one located in the foreign market you are entering. Such assistance offers greater knowledge on the local area, customs and culture.
- Foreign consultants often have contact list of additional assistance for any other issues that may arise.

## **7.0 REFERENCES/FURTHER READING**

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## **MODULE 3**

UNITE ONE            CULTURE AND INTERNATIONAL BUSINESS

UNIT TWO            TRANSFER PRICING

UNIT THREE         INVESTMENT POLICIES

UNIT FOUR         FREE TRADE ZONES

### **UNIT 1:    CULTURE AND INTERNATIONAL BUSINESS**

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- 1.0    Introduction
- 2.0    Learning objective
- 3.0    Main content
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- 3.2    International culture
- 3.3    The elements of culture
  - 3.3.1    Language
  - 3.3.2    Religion
  - 3.3.3    Values and attitudes
  - 3.3.4    Manners and customs
  - 3.3.5    Material cultural elements
  - 3.3.6    Aesthetics
  - 3.3.7    Education

- 3.3.8 Social institutions
- 3.4 Sources of cultural knowledge
- 3.5 Cultural analysis
- 3.6 A model of cross-cultural behaviour
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor –marked assignment
- 7.0 References/further reading

## **1.0 INTRODUCTION**

The cultural nuances that affect international business obviously go far beyond the ability to greet your international colleague or choose the correct gift. Issues related to the cultures time orientation, whether it is an individualist or collectivist society, space orientation, and power distance, not to mention conflict assumptions and non-verbal communication all affect understanding your colleague across the table, as well as your chances of being understood. Preparation by a trained expert related to these issues not only assures that unnecessary blunders will be avoided, it brings to each of us a personal knowledge that deepens our understating of others, thereby promoting acceptance, understanding, and on the level of international relations, peace and prosperity.

In order to communicate successfully you have to consider the cultural differences and the predominating communication process in individualistic and collectivistic cultures. It is bet to explain these differences in terms of low-and high level – context. Lets take you further.

## **2.0 LEARNING OBJECTIVES**

When you finish studying this unit, you have every opportunity to:

- Define and explain the concept of culture.
- Examine international culture.
- Discuss the various elements of culture.
- Explain material cultural element.
- Identify the source of cultural knowledge.
- Dilate copiously cultural analysis.
- Draw up a model of cross cultural behaviour

## **3.0 MAIN CONTENT**

### **3.1 DEFINITION AND MEANING OF CULTURE**

Culture is defined as the unique ideas, customs, skills, arts, behaviours, appearance, and communications of a group of persons. Culture frequently does not align with the borders of countries, Rather, it aligns more with geographical boundaries and formations, i.e. mountains, valleys Pivers lake etc.

It is unfortunates, but one of the more frequent causes of conflict around the world is the inability of divergent cultures, within the border of a single country to get along together.



### **3.2 UNDERSTANDING INTERNATIONAL CULTURE.**

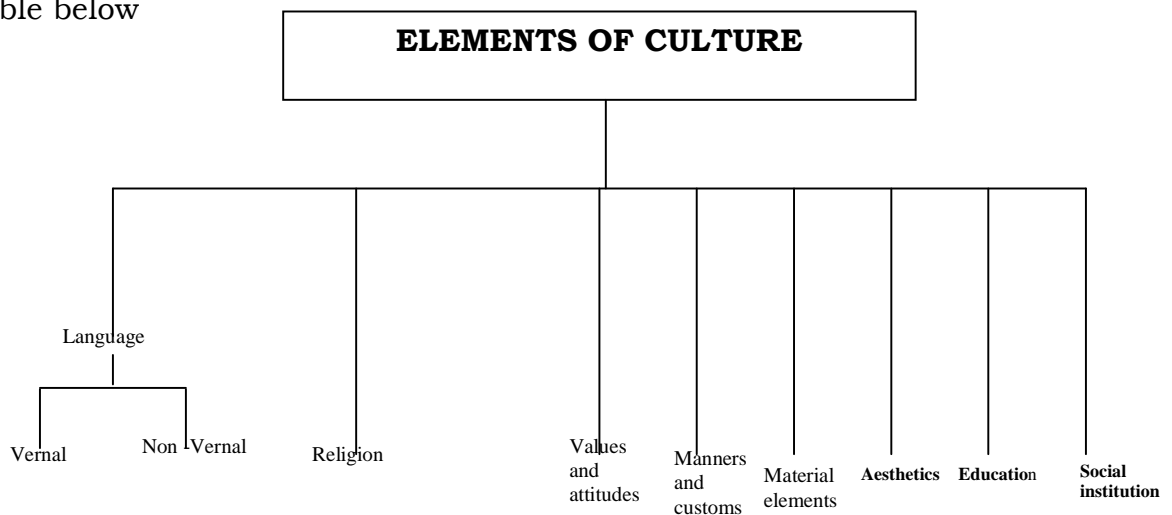
Getting to know much about the culture in a country or religion in which you are doing business is a critical skill for the international business person. Without this knowledge, a successful outcome to the business venture can be in jeopardy. The following resources can assist you in understanding the critical importance of working in and with other cultures around the world.

- International business meetings and gift giving: A detailed two part articles of exactly how international business meetings are conducted and business gift given in different countries.
- International success tips and secrets: a short article on building international business relationships.
- International business etiquettes and manners: top ranked website for information on culture around the world. Winner of the golden web award for 2003 -2004.
- ITIM: World Wide Network of consultants and Trainers specializing in inter cultural issues by utilizing the work of cross cultural behaviour and analysis culture can also be defined as

an integrated system of learned behaviour patterns that are characteristic of the members of any given society. The process of acculturation means adjusting and adapting to a specific culture other than one's own- is one of the keys to success in international operations.

### 3.3 THE ELEMENTS OF CULTURE

The observation of the major cultural elements are summarized in the table below



A society's culture determines how its members communicate and interact with each other.

The basic elements of culture are shown above. In this unit, we shall examine the basic ones below:

**3.3.1 Language:** This is a primary delineator of cultural groups because it is an important means by which a society's members communicate with each other. There are over 3,000 languages and as many as 10,000 dialects worldwide.

Language organizes the way in which members of a society think and communicate about the world. It structures perception, imagination and speech. Different cultures have different languages and thus different ways of seeing and talking about the world. Language provides important information about the cultural values of a society and helps in understanding the culture within that society. Levels of politeness based on the use of certain words or inflections and tones provides strong suggestion that it is critically important to maintain levels of respect and formality when dealing with business people. Lingua franca. English has emerged as the predominate common language. In order to conduct international business people must be able to communicate in a common language.

3.3.2 **Religion** has an impact on international business that is seen in a cultures values and attitudes towards entrepreneurship, consumption, and social organization. Religion provides the basis for transcultural similarities under shared beliefs and behaviour. The impact of these similarities will be assessed in terms of the dominant religions of the world, Christianity, Islam, Hinduism, Buddhism and Confucianism. While some countries may officially have secularism which as Marxism-Leninism as a state belief (for example, China, Vietnam, and Cuba), traditional religious beliefs still remains a powerful force in shaping behaviour.

Major holidays are often tied to religion. Holidays are observed differently from one culture to the next, to the extent that the same holiday may have different connotations. Christians cultures observe Christmas and exchange gifts on either December 24 or December 25, with the exception of the Dutch who exchange gifts on St. Nicholas's day, December 6.

The role of women in business is tied to religion, especially in the Middle East, where women do not function as they would in the West. This affects the conduct of business in various ways.

### **3.3.3 VALUES AND ATTITUDE**

Culture also affect and reflects the values and attitudes of member of society. Values are the principles and standards accepted by members of a society. Attitudes that result from a society's values have three components –thoughts, feelings and actions. Cultural values often stem from deep –seated beliefs about the individuals position in relation to his or her deity, family and social hierarchy. Cultural attitudes about factors such as time, authority, age, education and rewards reflect these values and in turn shape the behaviour of an opportunities available to international business operating in a foreign culture. Understanding the broader cultural differences and business behaviour that exists in international markets will help you make a better impression on those that you engage when doing business in a foreign culture.

### **3.3.4 MANNERS AND CUSTOM**

Changes occurring in manners and customs must be carefully monitored, especially in cases that seem to indicate a narrowing of cultural differences among peoples.

Understanding manners and customs is especially important in negotiations, because interpretations based on one's own frame of reference may lead to a totally incorrect conclusion. Universal respect is needed in cross-cultural negotiations, as seen in global perspective. Some of the potential ways in which negotiators may not be prepared include;

- Insufficient understanding of different ways thinking.
- Insufficient attention to the necessity to save face.
- Insufficient knowledge and appreciation of the host-country- its history, culture, government, image of foreigners.
- Insufficient recognition of the decision-making process and the role of personal relations and personalities, and
- Insufficient allocation of time for negotiations. The most sensitive products, such as consumer packaged goods, require consumer usage and attitude studies as well as retail distribution studies

and audits to analyze the movement of the product to retailers and eventually to households.

### **3.3.5 MATERIAL CULTURAL ELEMENTS**

Material culture refers to the result of technology and is directly related to how a society organizes its economic activity. It is manifested in the availability and adequacy of the basic economic, social, financial and marketing infrastructure for the international business in a market. The basic economic infrastructure consists of transportation, energy and communications systems social infrastructure refers to housing, health and educational systems prevailing in the country of interest. Financial and marketing infrastructures provide the facilitating agencies for the international firms operation in a given market for example, banks and research firms.

The level of material culture can aid segmentation efforts if the degree of industrialization is used as a basis. For companies selling industrial goods, such as general electronic, this can provide a convenient starting point. In developing countries, demand may be highest for basic energy-generating products. In fully developed markets, time-saving home appliances may be more in demand.

### **3.3.6 AESTHETICS**

Aesthetics is a branch of philosophy dealing with the nature of beauty, art, and taste, and with the creation and appreciation of beauty. It is more scientifically defined as the study of sensory or sensori-emotional values, sometimes called judgments of sentiment and taste as expressed in the arts- music, art, drama and dancing and the particular appreciation of colour and form. African music is different in form to Western music. Aesthetic differences affect design, colours, packaging brand names and media messages.

### **3.3.7 EDUCATION**

Education refers to the transmission of skills, ideas and attitudes as well as training in particular disciplines. Education can transmit cultural ideas or be used for change for example the local university can build up an economy's performance.

The UN agency UNESCO gathers data on education information. For example it shown in Ethiopia only 12% of the viable age group enroll at secondary school, but the figure is 97% in the USA.

Education levels, or lack of it, affect marketers in a number of ways:

- Advertising programmes and labeling.
- Girls and women excluded from formal education (literacy rates)



- Conducting market research.
- Relations with distributors and support sources – finance, advertising agencies etc.

### **3.3.8 SOCIAL INSTITUTIONS**

Refers to the way people relate to each other, for example, extended families, units, kinship. In some countries kinship may be a tribe and so segmentation may have to be based on this. Other forms of groups may be religious or political, age, caste and so on.

There are other aspects of culture, but the above covers the main ingredients. In one form or another, these have to be taken account of when marketing internationally.

#### **Hofstede's Contribution**

One of the most prolific writers on culture is Hofstede a Dutchman. Working with two colleagues Franke and Bond (1991) he sought to explain why “culture” could be better discriminator than “material” or “structural conditions” in explaining why some countries gain a competitive advantage and others do not.

They noted that in Michael porters 1990 book on the “competitive advantage of Nations” he popularized the idea that nations have competitive advantage over others.

### **3.4 SOURCES OF CULTURAL KNOWLEDGE**

Byram and Risager, who have published widely on intercultural competence in language education, suggest that the competence learners need for successful intercultural communication is one which enables them to bring the two cultures and cultural identities present in the interaction into a relationship of communication. The foreign – speaker must be able to perceive and understand the culture(s) of the native-speaker to reflect on his/her own culture(s) as seen from the foreign perspective, and to relate one to the other, explain each in terms of the other, accepting that conflicting perceptions are not always reconcilable.

According to Byram and Risager this competence should enable the learner to become a mediator between cultures, which is essential from a communicative point of view since “it is the mediation which allows for effective communication” (1999:58). In other words, the ability to mediate between two cultures is an essential component of intercultural competence.

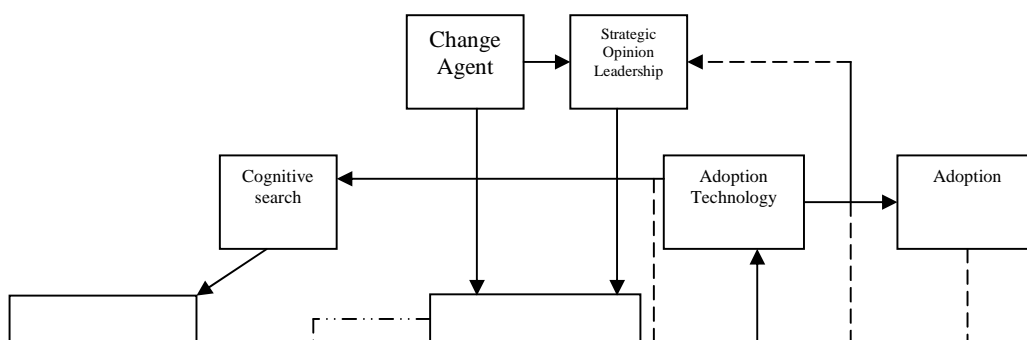
### 3.5 CULTURAL ANALYSIS

As a discipline, cultural analysis is based on using qualitative research methods of the social sciences in particular ethnography and anthropology, to collect data on cultural phenomena; in an effort to gain new knowledge or understand through analysis of that data. This is particularly useful for understanding and mapping trends, influences, effects and affects within cultures.

There are four themes of cultural analysis:

- Adaptation and change i.e. how well a certain culture adapts to its surroundings through the use of its culture. Some examples of this are foods, tools, home, surroundings, art etc. that show how the given culture adapted.
- How culture is used to survive which also helps its members survive the environment.
- Housing; specify the ability to put the observations into a single collection, and presently it in a coherent manner.
- Expression: This focuses on studying the expressions and performance of everyday culture.

### 3.6 A MODEL SHOWING CROSS-CULTURAL BEHAVIOUR



### **SELF ASSESSMENT EXERCISE**

- List the various elements of culture you know.

### **4.0 CONCLUSION**

In this unit, you have learnt about the definition of culture, international culture the various element of culture. You have also learnt about the sources of cultural knowledge and perspectives of cultural analysis. This unit has also exposed you to the model of cross cultural behaviour.

### **5.0 SUMMARY**

Along with “economics” culture is another so called “environmental uncontrollable” which marketers must consider.

In fact, it is a very important one as it is so easy to misread a situation and take decisions which subsequently can prove disastrous.

The study of culture has taken many forms including the anthropological approach, diffusion theory, high and low context culture, and perception approaches. “Culture” itself is made up of a number of learned characteristics include aesthetics, education, religion and attitudes and values. One of the principal researchers on culture and its consequences is Hofstede, who as a result of his studies, offers many insights and guides to marketers when dealing with diverse nationalities. Ignoring differences, or even similarities, in culture can lead to marketers making and executing decisions with possible disastrous results.

## **6.0 TUTOR-MARKED ASSIGNMENT**

- Explain the perspective of cultural analysis you know.

### **ANSWER TO SELF ASSESSMENT EXERCISE**

The various elements of culture are:

Language, religion, values and attitudes, material cultural elements aesthetics and education.



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## **UNIT TWO: TRANSFER PRICING**

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- 3.0 Main content
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  - 3.2 objectives of transfer pricing
  - 3.3 determining appropriate transfer prices
  - 3.4 transfer pricing criterion
    - 3.4.1 Performance evaluation
    - 3.4.2 Goal congruence
    - 3.4.3 Autonomy
  - 3.5 The concept of internal reporting
  - 3.6 External reporting
  - 3.7 Main external factors influencing choice of transfer prices.
  - 3.8 transfer pricing methods
    - 3.8.1 Cost based -transfer pricing method
    - 3.8.2 Market based- transfer pricing method
    - 3.8.3 Negotiated transfer pricing method
    - 3.8.4 Arbitrary transfer pricing method
  - 3.9 Pricing decisions-general pricing problems
- 4.0 Conclusion



- 5.0 Summary
- 6.0 Tutor –marked assignment
- 7.0 References/further reading

## **1.0 INTRODUCTION**

The process of determining reporting and acting on the imputed values of goods and services transferred between divisions is called transfer price.

Invariably, transfer pricing problems occur in a very large organization having divisions which are more or less autonomous and where the output of any of the division turn out to be input of another division within the group for the purpose of optimal decision-making by the various divisional management.

Central management should properly defined a transfer pricing policy to be used on a consistent basis by the whole organization.

Tang E. (1979) found the use of cost plus basis in the unite states and Japan. Plasschaert 1985 suggest that manipulation of transfer prices is more common in developing countries, where the governments are poorly equipped to monitor MNES.

## **2.0 OBJECTIVE OF THE UNIT**

Upon successful completion of this unit, you are expected to do the following:

- Define and explain the concept of transfer pricing.
- Identify the various objectives of transfer pricing.

- Discuss the determinants of appropriate transfer pricing.
- Explain some of the transfer pricing criterion.
- Explain internal reporting concept and
- External reporting
- Highlight the most influencing factors to transfer pricing.
- Examine the relative transfer pricing methods.
- Itemize the general problems of transfer pricing.

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF TRANSFER PRICING**

A transfer price is defined as the price charged by a selling department, division, or subsidiary of multi-national enterprises for a product or service supplied to a buying department, division or subsidiary of the same MNE. Abdullah 1999.

A transfer price could also be defined as the monetary value attached to the goods and services exchanged between divisions, subsidiaries in a large decentralized organization.

transfer pricing is the rate of prices that are utilized when selling goods or services between company, divisions and departments, or between a parent company and a subsidiary. The transfer pricing that is set for the exchange may be the original purchase price of the goods in question, or a rate that is reduced due to internal depreciation when

used properly, transfer pricing can help to more efficiently manage profit and loss ratios within the company.

Generally, transfer pricing is considered to be a relatively simple method of moving goods and services among the overall corporate family.

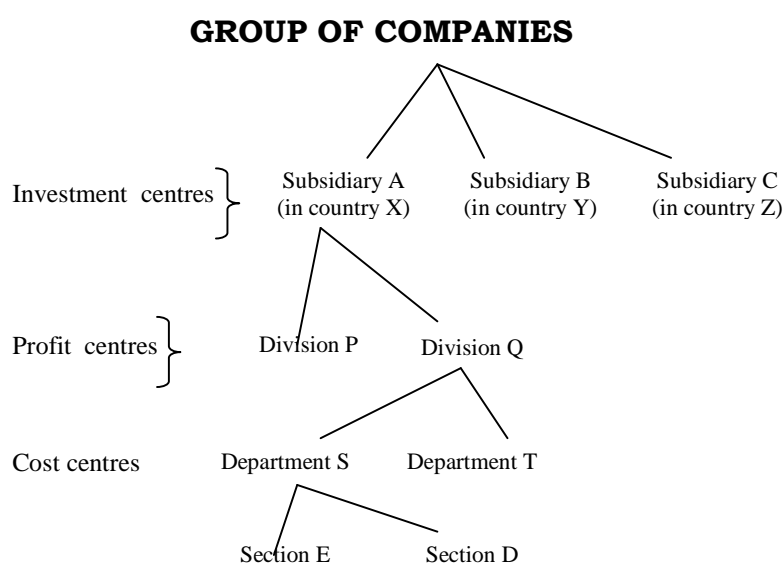
### **3.2 THE OBJECTIVES OF TRANSFER PRICING**

Transfer pricing are normally set for the following:

- Transactions that take place between units within a company (for management accounting purpose).
- Transaction that take place between units that are separate companies within a group (for financial reporting and taxable income).
- Transaction that take place between units that are separate companies in different nations and continents (multinational enterprises).

### 3.3 DETERMINING APPROPRIATE TRANSFER PRICES

Within a large organization, it is quite possible to have investment centres, profit centres and cost centres all within the same accounting system. The sketch below gives a brief outline of how this might occur in a multinational organization. See the analysis below:



International pricing activities arising largely from the preparedness of international companies to penetrate markets, especially where there are limited numbers of local producers.

In determining an appropriate transfer price, John Blake (1991), suggested two broad types of objectives.

- (a) Those associated with internal reporting and
- (b) Those associated with external reporting.

### **3.4 TRANSFER PRICING CRITERION**

Central management should properly defined a transfer pricing policy to be used on a consistent basis by the whole organization. Such as transfer pricing policies should at least satisfy the following three broad criterion.

**3.4.1 Performance evaluation:** A transfer pricing policy or method should be such that would enable central management to effectively determined the contribution of each of the division towards corporate profit. This would therefore enable management to realistically assess the performance of each of the division managers.

The transfer pricing method therefore should not necessarily lead to distribution of the level of efficiency and effectiveness of the divisional managers.

**3.4.2 Goal congruence:** A transfer pricing policy or method should encourage each division to take decisions which are not only beneficial to the division but also beneficial to the whole organization. In other word, the transfer pricing policy should reduce to the bearest minimum the tendency towards sub-optimality. Sub-optimality is the maximization of divisional goals to the detriment of corporate goals.

3.4.3 **Autonomy:** The transfer pricing policy should as far as possible preserve the autonomy of the division so that the full benefits of decentralization could be reaped or enjoyed. In other words, the autonomy of the divisional managers should not be unnecessarily eroded because of the long term negative implications on motivation.

### **3.5 THE CONCEPT OF INTERNAL REPORTING**

For internal purposes, an information system should attempt to report on:

- (a) The controllable performance of a manager in the short-run.
- (b) The controllable performance of a division, or profit centre, in the longer term.
- (c) The performance of the manager and division measured against a budget or other yardstick of achievement.

Illustration: Example of a divisional performance statement based on contribution might appear as follows:

	<b>Division A</b>	<b>Division B</b>	<b>Total</b>
	N1000	N1000	N1000
Sales	80	100	180
Less: variable cost	<u>(60)</u>	<u>(50)</u>	<u>(110)</u>
contribution	20	50	70
Les: fixed cost			<u>50</u>
profits.			20

- (a) Divisional performance can be improved by increasing the sales price or volume of sales, or reducing the unit variable cost.
- (b) The relative profitability of divisions A and B could be compared by means of their C/S ratios (in this example, 20% and 50% respectively).
- (c) If there is a production limiting factor, performance could also be measured in terms of contribution per unit of limiting factor.

Unit managers will use transfer price as basis for decision making.



### 3.6 EXTERNAL REPORTING

Multinational enterprises are affected by certain objective that can be described as of immediate external to their operating environment.

According to John Blake, (1991) these are the following:

- **Competition:** (Apran 1988) argues that transfer pricing may be used to artificial depressed reported income in highly profitable units so as to mislead potential competitors. Vertically integrated MNES can use transfer prices to concentrate profits at the stage of production competitors operating at other stage of production can thus be discouraged by the relatively low profits to be earned.
- **Taxation:** MNES reduce their total tax bill by transfer pricing policies that reduce reported income in countries with high rate of tax and increase reported income in countries with low tax rate.
- **Foreign exchange exposing:** transfer pricing can affect the Net Foreign Exchange exposure of the MNE by controlling timing and terms of payments.
- **Import duties:** An artificial low transfer price can reduce the effect of high import duties and consequently the cost of goods in such countries with high import duties tariff. Similarly, a system of import quotas may attract the response of a low transfer price

to increase the permitted volume of imports from subsidiaries, tax credit, or other benefits allowed to exporters.

- **Pressure from workforce:** high reported profit levels may lead to undesirable political pressures, in some countries and may prompt the move to nationalize or expropriate the local company. In such situations transfer prices that depress reported profit may be chosen.
- **Minority interest:** where a unit of a MNE raises finance locally, transfer prices that boost reported income may be used in order to impress local lenders.

### **3.7 MAIN EXTERNAL FACTORS INFLUENCING CHOICE OF TRANSFER PRICES**

- a. Factor promoting high transfer prices to or low transfer prices from a country.
  - High tax rates
  - High exchange controls
  - Minority interest in subsidiary
  - Profit sharing scheme
  - Little competitions
  - Political sensitivity

- b. Factors promoting low transfer prices to or high transfer prices from a country
- Low tax rates
  - Available tax losses
  - Import duties/import quotas
  - Export subsidiaries
  - Little competition
  - Locally raised finance

### **3.8 TRANSFER PRICING METHODS**

There are many transfer pricing methods that could be used in practice. The problem however is that it is very difficult for any of the transfer pricing method to simultaneously satisfy the criteria of performance evaluation, goal congruence and autonomy. The following are the four broad categories of transfer pricing method:

1. Cost based transfer pricing method
2. market based transfer pricing method
3. negotiated transfer pricing method
4. arbitrary transfer pricing method

**3.8.1 COST BASED TRANSFER PRICING METHODS (CBTP):** Under this method the selling division or subsidiary sells to the buying

division at either the cost it has incurred or at cost plus (a mark-up). Cost could be any of the following:

- **Full cost:** The selling division recovers all production cost including fixed overheads as well as selling administrative cost.
- **Variable cost:** The transfer price ensures that at least variable or minimal cost are recovered, fixed overheads are ignored completely. This method is especially appropriate whenever there is excess capacity either of the selling division or the buying division.
- **Standard cost:** The transfer is based on predetermined amount which ensures that the inefficiency of the selling division in production is not unnecessarily passed on to the buying division.
- **Cost plus mark-up:** A specific percentage is applied to the cost of production this automatically guarantees the selling division some amount of profit whenever there is transfer.

#### **Advantages of CBTP method**

- Price can be easily obtained from the costing system.

- It is very useful for optimal decision making purpose especially the marginal cost variance whenever there is excess capacity in the selling division.
- Computation of stock value is not problematic when preparing group accounts as there is no unrealized profit on stock.

#### **Disadvantages of CBTP method**

- It may lead to unpredictable month by month fluctuation unless standard cost method is used.
- Cost of the selling division may be rejected on the ground that it is inefficient especially when full cost is used.

#### **3.8.2 MARKET BASE TRANSFER PRICING METHOD (MBTP)**

The buying division and the selling division would be operating at arms-length i.e. as if they are not members of the same group.

The advantages are as follows:

- There is a goal congruence as any decision taken by the divisional management using market based transfer pricing method would not only be in the interest of the division but also that of the whole organization.
- Divisional autonomy is maintained.

- It is most adequate for measuring performance and motivating managers.
- Market price are objected and verifiable.

#### **Disadvantages of MBTP method**

- The element of profit could complicate stock valuation when group location are being prepared.
- The market price is not often determinable for intermediate market are either non existent or imperfect.

#### **3.8.3 NEGOTIATED transfer pricing METHOD (NTP)**

Under this method the selling and the purchasing divisions agree in advance to use a mutually acceptable transfer price.

It is advantageous in the sense that:

- The motivational impact is always stronger because it gives managers a high degree of control and involvement when prices were set.

#### **Disadvantages of NTP method**

- Negotiation may be time consuming.
- The group interest may be subordinated to individual interest.

- The negotiated price may need constant review and hence a lot of time could be further wasted

#### **3.8.4 ARBITRARY transfer pricing METHOD (ATP)**

Under this method, transfer price are determined centrally based on what top management believes is most beneficial to the whole group.

Individual division may have some say but no control over prices actually set.

##### **Advantages of arbitrary transfer pricing method:**

- Time consuming negotiations are saved.
- Uniformity and stability tends to prevail.

##### **Disadvantages of arbitrary pricing method**

- Profit and cost consciousness may suffer where the arbitrarily fixed price is not considered realistic.
- It erodes some part of the independence normally desirable for autonomous divisions.

**Illustration:** A company prices of its product at full cost plus 100%.

The current variable cost of production is as follows:

X - 8kg at N10 per kg

Y - 1kg at N1.50 perkg

Labour – 5minutes at N80 per hour.

Total fixed cost N320, 000 per annum absorbed on the budgeted production for the year. Anticipated price increases in the coming year:

Material X = 10%

Material Y = 33⅓%

Labour Rate = 50%

Fixed Cost = 12½%

The company budgeted production for the coming year is 9000 units.

Required: Calculate

- The selling price of the product for the coming year on the company's usual basis.
- The company's profit at the budgeted level of activity.
- Break even point in units and sales value.
- The PV ratio
- The maximum amount that the company be prepared to spend on advertising to increase to 10,000 units.

Solution:

Budgeted unit =



<u>Cost (plus)</u>	
Material X: 8x N10 x 9000 x 110%	79,200,000
Material Y: 1 xM1.50 x 9000 x 33⅓%	1,802,250
Labour : $\frac{5}{60}$ x N80 x 9000 x 150%	<u>8,964,000</u>
<u>Variable cost</u>	89,966,250
Fixed cost: 320,000 x 112½%	36,000,000
Total cost	<u>125,966,250</u>
Pricing policy = 100% x 126,000,000	126,000,000
To obtain total revenue, the rule applies that we double the amount (N126,000,000)	<u>126,000,000</u>

Total Revenue 252,000,000

∴ Selling price =  $\frac{252,000,000}{9000} = \text{N}28,000$

- Company profit = Total revenue – total cost  
= N252,000,000 - N126,000,000 = N126,000,000

- BEP (unit) =  $\frac{\text{FB}}{\text{Contribution per unit}}$  or  $\frac{\text{FC}}{\text{SP} - \text{VC}}$

TR - TVC = contribution (total)

N252,000,000 – 89,966,250

Approximately

N252,000,000 – 90,000,000 = N126,000,000

∴ Contribution per unit =  $\frac{126,000,000}{9000} = \text{N}18,000$

Variable cost per unit =  $\frac{90,000,000}{9000} = \text{N}10,000$

BEP (Unit) =  $\frac{36,000,000}{18,000}$  or  $\frac{36,000,000}{28,000 - 10,000}$

$$= \frac{36,000,000}{18,000} = \underline{2000 \text{ units}}$$

$$\text{BEP (Naira)} = 2000 \times 28,000 = \text{N}56,000,000$$

i.e. BEP (unit) x SP

- $\text{PV RATIO} = \frac{C}{S \text{ rate}} \div \text{CMR}$

$$\text{C/S ratio} = \frac{\text{Contribution per unit}}{\text{Selling price per unit}} \times 100$$

$$= \frac{\text{N}18,000}{\text{N}28,000} \times 100 = \underline{64.3\%}$$

- $\text{TC} = \text{TR} - \text{TC}$

$$\text{TC} = \text{TVC} + \text{TFC}$$

$$\text{TC} = 10,000 \times 100 + 360,000 + x$$

$$\text{TR} = \text{TC} \times 2$$

$$\text{TR} = (10,000 \times 100 + 360,000 + x)2$$

$$\text{Present } x = \text{N}126,000,000$$

$$\therefore 126,000,000 = (10,000 \times 100 + 360,000 + x)2$$

$$126,000,000 = (1000,000 + 72,000,000 + 2x)$$

$$126,000,000 = 2,000,000 + 72,000,000 + 2x$$

$$126,000,000 = 74,000,000 + 2x$$

$$126,000,000 - 74,000,000 = 2x$$

$$52,000,000 = 2x$$

$$x = \frac{52,000,000}{2} = \underline{\text{N}26,000,000}$$

2

### 3.9 GENERAL PRICING PROBLEMS

- The firm or organization's objective is that, is it a profit or revenue maximizer or is it pursuing satisfying objective?
- The cost structure of the firm and product
- The availability of substitutes
- Inflation – is inflation rising, falling, high or low?
- Disposable income of the consumers.
- Level of the firm's activity i.e. will the firm be working at full or below capacity?
- Government restrictions or registration. i.e. are there regulations or laws governing prices?
- The market in which the firm operate i.e. perfect, imperfect, oligopolistic or monopolistic competition.

### **SELF ASSESSMENT EXERCISE**

What is transfer pricing? And examine the relative problems.

### **CONCLUSION**

This unit has broad as it is has let you understand what transfer pricing is, the objectives of transfer pricing, criteria of transfer pricing, performance evaluation, goal congruence. You have also learnt about the main external factors influencing choice of transfer prices, the transfer pricing methods and general pricing problems.

## **5.0 SUMMARY**

A transfer price has been defined as the price charged by a product or service supplied to a buying department, division or subsidiary of the same MNE. The various methods of transfer pricing are: Cost based transfer price, transfer price at market value, Negotiated transfer price and Arbitrary transfer price.

transfer prices can be needed to circumvent any control imposed by the host country where MNE operates. One of the strongest strength of transfer pricing is that it can reduce the risk associated with overseas investment.

## **6.0 TUTOR –MARKED ASSIGNMENT**

- Itemize and explain the concept of international reporting.

### **ANSWER TO SELF ASSESSMENT EXERCISE**

A transfer price could be defined as the monetary value attached to the goods and services exchanged between division in a large decentralized organization. The process of determining reporting and acting on the imputed values of goods and services transferred between divisions or subsidiaries.

- The general transfer pricing problems involve:
  - The availability of substitutes
  - Inflation
  - Disposable income of the consumers etc.

## **7.0 REFERENCES/FURTHER READING**

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## **UNIT THREE: INVESTMENT POLICIES**

### **CONTENT**

- 1.0 Introduction
- 2.0 Learning objective
- 3.0 Main content
  - 3.1 Definition and meaning of investment policy
  - 3.2 investment policy statements
  - 3.3 portfolio manager
    - 3.3.1 Portfolio
    - 3.3.2 Asset allocation
    - 3.3.3 Risk tolerance
    - 3.3.4 Strategic asset allocation
    - 3.3.5 Tactical asset allocation (TAA)
  - 3.4 Liquidity
  - 3.5 Profits with investment policy statement and Hedging with puts and calls.
    - 3.5.1 Understanding one's role in the investing policies
    - 3.5.2 Interpreting your brokers reports
  - 3.6 Asset allocation strategies that work
  - 3.7 The gatekeepers: Consultants hold the key
  - 3.8 Portfolio management pay off in a tough market.
- 4.0 Conclusion

- 5.0 Summary
- 6.0 Tutor marked assignment
- 7.0 Reference/further reading



## **1.0 INTRODUCTION**

Every city and country has an investment policy. Even if your finance department has not consciously developed and had it adopted by the city council, any jurisdiction that has investment has an adhoc policy, which is the result of the individual investment decisions made in the past. The investment instrument that one may currently hold have certain maturities, yields, liquidities, safety, etc. However, they may not be what your jurisdiction would choose if it looked at the overall picture. Having an investment policy is not only a good financial practice ,it also provides protection for elected officials and staff by spelling out goals and responsibilities. There are many ways of defining investment depending on the context under which it is being used. In elementary sense connote purchase of real tangible assets such as machines, factories or stocks of materials used in production of goods services. It also means making an addition to the stocks of goods or capital in existing.

## **2.0 LEARNING OBJECTIVES**

Upon successful completion of this unit, you are expected to:

- Define and explain investment policy.
- Define investment policy statement.
- Examine the role of portfolio manager.

- Explain the meaning of portfolio.
- Discuss asset allocation and risk tolerance.
- Critically discuss profits with investment policy statement and heading with puts and calls.
- Identify how one's role should be understood in investing process
- Discuss the portfolio management pay off in a tough market.
- Examines the asset allocations that work.

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF INVESTMENT POLICIES**

A form description of the investment philosophy that will be utilized for a given fund retirement plan or other investment article.

**3.2 INVESTMENT POLICY STATEMENT (IPS)** is a document drafted between a portfolio manager and a client that outlines general rules for the manager.

This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements would also be included in an investment policy statement.

For example an individual may have an IPS stating that by the time he or she is 60 years old his or her job will become optional, and his or her investments will annually return \$65,000 in today's dollars given a certain rate of inflation. This would be only one of many points included in an investment policy statement, however, it probably would also include such things as general guidelines outlining what the individual wants to leave behind to loved ones when he or she dies.

### **3.3 THE PORTFOLIO MANAGER IN INVESTMENT**

The person or persons responsible for investing a mutual, exchange – traded or closed – end funds assets, implementing its investment strategy and managing the day-to-day portfolio trading.

The portfolio manager is one of the most important factors to consider when looking at fund investing. Portfolio management can be active or passive (index tracking).

Historical performance records indicate that only a minority of active fund managers beat the market indexes.

- Gunslinger is a Slang term for an aggressive portfolio manager who uses high-risk investment techniques in an attempt to produce big return. Rather than considering the long-term value of the company.

- Investment manager: A person or organization that makes investment in portfolio of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients.
- Portfolio management is the art and science of making decisions about investment mix and policy matching investment to objectives, asset allocation for individuals and institutions, and balancing risks.

### **3.3.1 PORTFOLIO**

A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their mutual, exchange – traded and closed fund counterparts. Portfolios are held directly by investment and/or managed by financial professionals. Portfolio prudence suggest that investors should construct an investment portfolio in accordance with risk tolerance and investing objectives. Think of an investment portfolio as a pie that is divided into pieces of varying sizes representing a variety of asset classes and/or types of investments to accomplish an appropriate risk return portfolio allocation.

For example, a conservative investor might favour a portfolio with a large cap value stocks, broad –based market index funds investment-grade bonds and a position in liquid, high grade cash

equivalents. In contrast, a risk loving investor might add some small cap growth stock to an aggressive, large cap growth stock position, assume some high-yield bond exposure and look to real estate, international and alternative investment opportunities for his or her portfolio.

- A portfolio plan is an investment strategy applied to a personal or corporate portfolio that determines its general purpose and constraints. Once a portfolio plan has been determined and investment.
- Portfolio insurance: A method of hedging a portfolio of stocks against the market risk by short selling stock index futures. Brokerage insurance such as the securities investors protection.

### **3.3.2 ASSET ALLOCATION**

An investment strategy that aims to balance risk and reward by apportioning a portfolios assets according to an individual's goals, risk tolerance and investment horizon.

The three main asset classes are equities, fixed -income, and cash and equivalents which have different levels of risk and return, so each will behave differently over time. There is no simple formula that can find the right asset allocation for every individual. However, the consensus among most financial professionals is that asset allocation is one of the

most important decisions that investors make. In other words, your selection of individual securities is secondary to the way you allocate your investment in stocks, bonds and cash and equivalents, which will be the principle determinants of your investment results.

Asset allocation mutual funds also known as life cycle or target date fund are attempt to provide investors with portfolio structures that address and investor's age, risk appetite and investment classes. However, critics of this approach point out that arriving at a standard solution for allocating portfolio assets is problematic because individual investors require individual solution

### **3.3.3 RISK TOLERANCE**

This the degree of uncertainty that an investor can handle in regard to a negative change in the value of his or her portfolio.

An investors risk tolerance varies according to age, income requirements, financial goals, etc. for example, a 70-year -old retired widow will generally have a lower risk tolerance than a single 30-year-old executive, who generally has a longer time frame to make up for any losses she may incur on her portfolio.

- Diversification is risk management technique that mixes a wide variety of investment within a portfolio. The rationale behind this technique contends that a portfolio of different kinds.

- Risk averse is a description of an investor who, when faced with two investments with a similar expected return (but different risks) will prefer the one with the lower risk.
- Risk discount: Is a situation where a particular investor, either an individual or firm, decides to receive less of a return on their investment in exchange for less risk.

### **3.3.4 STRATEGIC ASSET ALLOCATION**

### **3.3.5 TACTICAL ASSET ALLOCATION (TAA)**

An active management portfolio strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors.

This strategy allows portfolio managers to create extra value by taking advantage of certain situations in the market place. It is a moderately active strategy since managers return to the portfolio original strategic asset mix when desired short-term profits are achieved. Asset is a resource with value that an individual corporation or country owns or controls with the expectation that it will provide future benefit.

## **3.4 LIQUIDITY IN INVESTMENT**

This is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity.

Assets that can be easily bought or sold, are known as liquid assets.

The ability to convert an asset to quick cash is also known as marketability.

There is no specific liquidity formula, however, liquidity is often calculated by using liquidity ratios. It is safer to invest in liquid assets than illiquid ones because it is easier for an investor to get his/her money out of the investment.

Examples of assets that are easily converted into cash include blue chip and money market securities. A liquid asset is an asset that can be converted into cash quickly and with minimal impact to the price received.

Liquidity cushion is a reserve fund for a company or individual made up of high liquid investments. A liquidity cushion relates to a business or individual holding an ample amount of cash.

Liquidity risk is stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize loss.



### **3.5 PROFIT WITH INVESTMENT POLICY STATEMENTS**

Defining how investment are managed and monitored can help investors meet their goals.

Investors that manage smaller portfolios are beginning to buy into the importance of having an investment policy statement.

Hedging with puts and calls: this trading strategy can reduce your risk-but only if you use it effectively.

#### **3.5.1 UNDERSTANDING YOUR ROLE IN THE INVESTING PROCESS**

Knowing what to expect when managing your assets will help you achieve your financial goals. The client responsibility. The client has the most important role to play without the client, the other roles becomes superfluous. As a client, your first responsibility is to set clear financial goals and objectives.

Another key responsibility is to continue to monitor both your own financial situation as well as the management of your portfolio. The final responsibility of the client is to hire or fire money mangers if they are not doing a satisfactory job of managing your assets.

In a collaborative relationship with an advisor or salesman, the boundaries between the roles become blurred.

#### **3.5.2 Interpreting your broker's report**

Brokers reports can be confusing, but they don't have to be; find out what information you need from your broker.

**3.6 Asset Allocation Strategies** that work your portfolio asset mix is a key factor in whether it's profitable. Find out how to get this dedicate balance right.

**3.7 The Gatekeepers:** Consultants hold the key institution investment consultants help match up asset managers with large institutions.

### **3.8 PORTFOLIO MANAGEMENT PAYS OFF IN A TOUGH MARKET**

A clear rebalancing strategy is a critical component of portfolio management, particularly in tough economic times.

### **SELF ASSESSMENT EXERCISE**

- What is liquidity?
- What is investment policy?

### **4.0 CONCLUSION**

In this unit, you have learnt about the meaning of investment policy, investment policy statement. You have learnt about the role of risk managers, liquidity, investors roles in investment process, asset allocation strategies that work, tactical asset allocation and portfolio management pay-off in a tough market.

## **5.0 SUMMARY**

An investment policy is a written documents formulated by an investor to effectively manage an investment portfolio. State-owned entities, banks and other financial institutions, pension funds, and to a lesser extent, individuals, are among those who use such a document.

A standard policy seeks primarily to diversify the portfolio into different categories of risk to achieve optimum returns.

## **6.0 TUTOR –MARKED ASSIGNMENT**

- Discuss the concept of tactical asset allocation.

### **ANSWER TO SELF ASSESSMENT EXERCISE**

- Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the assets price.
- Investment policy is a formal description of the investment philosophy that will be utilized for a given fund, retirement plan or other investment vehicle.

## **7.0 REFERENCES/FURTHER READING**

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## **UNIT FOUR:       FREE TRADE ZONES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Learning objectives
- 3.0 Main content
  - 3.1 Definition and meaning of free trade zones.
  - 3.2 Developmental background of free trade zones.
  - 3.3 The nature of free trade zones.
  - 3.4 Lists of free trade zones.
  - 3.5 Criticisms of free trade zones.
  - 3.6 Purpose of international free trade zone.
  - 3.7 free trade agreement
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-marked assignment
- 7.0 References/further studies

## **1.0 INTRODUCTION**

Free trade zone is the loosest form of integration whereby countries involved, that is member countries maintain different tariffs against goods coming into their own country from non-member countries, while they maintain free trade on goods from member states. That is, by not imposing tariffs on them.

In most cases, rules of origin are specified within this area, to control trade of products manufactured in the area in order to prevent trade deflection-redirection of trade from a low tariff area to high tariff area in order to benefit from tariff differentials.

free trade zones can be defined as labour intensive manufacturing centres that involve the import of raw materials or components and the export of factory products. The world's first free trade zone was established in Shannon, Co. Clare, Ireland.

## **2.0 LEARNING OBJECTIVES**

At the end of this unit, you should be able to do the following:

- Define free trade zones and dilate copiously its meaning.
- Trace the developmental background of free trade zones.
- Examine the structure of free trade zones.

- Identify the categorization of free trade zones.
- Discuss some of the criticisms to free trade zones.
- Explain the benefits and significance of free trade zones to its member states.

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF FREE TRADE ZONES**

A free trade zone (FTZ) or export processing zone (EPZ) also called foreign-trade zone formally free port is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

Only when the goods are moved to consumers within the country in which the zones is located do they become subject to the prevailing customs duties. Free trade zones are organized around major seaports, international airports, and national frontiers- areas with many geographical advantages for trade. It is a region where a group of countries have agreed to reduce or eliminate trade barriers.

Free trade zones can be defined as labour intensive manufacturing centres that involve the import of raw materials or components and the export of factory products.

#### **3.2 DEVELOPMENTAL BACKGROUND OF FREE TRADE ZONES**

The world's first free trade zones was established in Shannon, Co. Clare, Ireland Shannon free trade zone. This was an attempt by the Irish Government to promote employment within a rural area, make use of a small regional airport and generate revenue for the Irish economy. It was hugely successful, and is still in operation today. The number of worldwide free trade zones proliferated in the late 20<sup>th</sup> century. In the United States free trade zones were first authorized in 1934.

Most free trade zones located in developing countries: Brazil, India, Indonesia, El Salvador, China, the Philippines, Malaysia, Bangladesh, Pakistan, Mexico, Costa Rica, Honduras, Guatemala, Kenya, Srilanka, and Madagascar have export processing zones programmes.

In 1997, 93 countries had set up export processing zones employing 22.5million people, and five years later, in 2003, EPZs in 116 countries employed 43 million people.

Corporations setting up in a zone may be given tax breaks as an incentive. Usually, these zones are set up in underdeveloped parts of the host country, the rationale is that the zones will attract employers and thus reduce poverty and unemployment and stimulate the areas economy. These zones are often used by multinational corporations to set up factories to produce goods (such as clothing or shoes). free trade



zones in Latin America date back to the early decades of the 20<sup>th</sup> century.

The first free trade regulations in this region were enacted in Argentina and Uruguay in the 1920s. The Latin America free trade association (LAFTA) was created in 1960 treaty of Montevideo by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay. However, the rapid development of free trade zones across the region dates from the late 1960s and the early 1970s. Latin America trade integration Association is a Latin America trade integration association, based in Montevideo.

### **3.3 THE NATURE OF FREE TRADE ZONES**

free trade zones are also known as special economic zones in some countries, special economic zones (SEZs) have been established in many countries as testing grounds for the implementation of liberal market economy principles. SEZs are viewed as instruments to enhance the acceptability and the credibility of transformation policies and to attract domestic and foreign investment.

In 1999, there were 43 million people working in about 3000 FTZs spanning 116 countries producing clothes, shoes, sneakers, electronics, and toys. The basic objectives of export processing zones are to enhance foreign exchange earnings, develop export-oriented industries and to generate employment opportunities.

### **3.4 LISTS OF FREE TRADE ZONES**

**a. Africa:** Mauritius (the whole Island is considered to be a FTZ).

- Bizerte and Zarzis in Tunisia
- Walvis Bay export processing zone, Namibia
- Nigeria has five trade zones: Calabar free trade zone, Kano free trade zone, Onne Oil and Gas free trade zone, Maigatan Border free trade zone and Border free trade.

Product free trade.

**b. Americas**

- World trade centre free trade zone- Uruguay
- Zona Franca Industrial La Palma Ltd. Santiago, Republica Dominicana.
- Centerport Canada – Manitoba, Canada.
- San Luis Potosi, Mexico.

**c. Asia**

- Aegean free trade zones of Srycity which is a developing satellite city in the epicenter of Andhra Pradesh & Tamil Nadu, India first free trade and warehousing zone. The largest multi-product free trade and warehousing infrastructure in India.

- Kandlar free trade zone, India

**d. Europe**

- Directorate for Technological industrial development zones Macedonia.
- Brussels FTZ Belgium.
- Shannon free trade zone
- Shannon free zone, business and technology park, Island.

**e. Middle East**

- Jebel Ali free zone, Dubai
- Aras free zone, East Azerbaijan province, Iran.
- Bahrain Logistics zone, kingdom of Bahrain.

**f. Oceania**

- Batam free trade zone, Indonesia
- Bayan Lepas free trade zone, Penang, Malaysia.

**3.5 THE CRITICISMS OF FREE TRADE ZONE**

free trade zones are domestically criticized for encouraging business to set up operations under the influence of other governments and for giving foreign corporations more economic liberty than is given

indigenous employers who face large and sometimes insurmountable “regulatory hurdles” in developing nations. However, many countries are increasingly allowing local entrepreneurs to locate inside FTZs in order to access export-based incentives. Because the multinational corporation is able to choose between a wide range of underdeveloped or depressed nations in setting up overseas factories, and most of these countries do not have limited governments, bidding wars (or races to the bottom) sometimes erupt between competing governments. Sometimes the domestic government pays part of the initial cost of factory setup, loosens environmental protections and rules regarding negligence and the treatment of workers, and promises not to ask payment of taxes for the next few years. When the taxation-free years are over, the corporation that set up the factory without fully assuming its costs is often able to set up operations elsewhere for less expense than the taxes to be paid, giving it leverage to take the host government to the bargaining table with more demands, but parent companies in the United States are rarely held accountable.

The widespread use of free trade zones by companies such as Nike has received criticism from numerous writers such as Naomi Klein in her book *No Logo*.

### **3.6 PURPOSE OF INTERNATIONAL FREE TRADE ZONES**

The main idea behind creation of free trade zones is to facilitate cross-border trade by removing obstacles imposed by customs regulations. Free trade zones ensure faster turnaround of planes and ships by lowering custom related formalities. FTZs prove to be beneficial both for the importers and exporters, as these zones are designed to reduce labour cost and tax related expenditures. Free trade zones help the traders to utilize the available business opportunities in the best possible way. FTZs promote export-oriented industries.

These zones also help to increase foreign exchange earnings. Employment opportunities created by free trade zones help to reduce unemployment problem in the less developed economies.

### **3.7 FREE TRADE AGREEMENT**

A free trade agreement is a pact between two countries or areas in which they both agree to lift most or all tariffs, quotas, special fees and taxes, and other barriers to trade between the entities. The purpose of free trade agreement is to allow faster and more business between the two countries/areas, which should benefit both.

#### **SELF ASSESSMENT EXERCISE**

- What is export processing zone?

- Name four major countries in which free trade zones is dominants.

#### **4.0 CONCLUSION**

Free trade zones are divided into general purpose zones and sub zones.

The foreign – trade zones board accepts and reviews applications for both, state or local governments, port authorities, non-profit organization or economic development agencies typically sponsor general-purpose zones. General-purpose zones involve public facilities that can be used by more than one firm, and are most commonly ports or industrial parks used by small to medium sized business for warehousing/distribution and some processing/assembly.

#### **5.0 SUMMARY**

Subzones, are sponsored by general –purpose zones but typically involve a single firms site which is used for more extensive manufacturing/processing or warehousing/distribution that cannot easily be accomplished in a general-purpose zone. free trade zones also called foreign –trade zone, formerly free port, an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

- What do you understand by the term free trade agreement?
- Discuss the criticism of free trade zones.

### **ANSWERS TO SELF ASSESSMENT EXERCISE**

Export processing zone is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

- Africa – Mauritius, Madagas, Kenya etc
- Asia –Kadler free trade zone, India.
- America –World trade centre free zone-Uruguay.
- Europe- Business free trade zone-Belgium.

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## **MODULE FOUR**

- UNIT 1: INTERNATIONAL BUSINESS PAYMENTS AND FOREIGN EXCHANGE MARKET
- UNIT 2: STANDARDIZATION VERSUS ADAPTATION
- UNIT 3: INTERNATIONAL BUSINESS RESEARCH
- UNIT 4: ORIGIN AND CONTROL OF INTERNATIONAL OPERATIONS

### **UNIT ONE: INTERNATIONAL BUSINESS PAYMENTS AND FOREIGN EXCHANGE MARKET**

#### **CONTENTS**

- 1.0 Introduction
- 2.0 Learning Objectives
- 3.0 Main Content
  - 3.1 Meaning of International Business Payments
  - 3.2 Confirmed Irrevocable Credit
  - 3.3 Unconfirmed Irrevocable Credit
  - 3.4 Various International Terms of Payment
    - 3.4.1 Drafts as an International Means of Payment
    - 3.4.2 Open Account
    - 3.4.3 Cash In Advance
      - 3.4.3.1 The Letter of Credit and its Principles
  - 3.5 The Foreign Stock Exchange Market
    - 3.5.1 The Uniqueness of the Foreign Exchange Market.

- 3.6 The Level of Liquidity in Foreign Exchange Market
- 3.7 Markets and Marketable Securities in the Foreign Exchange  
Markets and Financial Market Participants.
- 3.8 Determinants of Exchange Rate.
- 4.0 Conclusion.
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading.

## **1.0 INTRODUCTION**

In any international business contract, it is important to establish the value of a seller. This is usually done through an irrevocable, “confirmed at sight” letter of credit. This letter of credit requires clear understanding to avoid any discrepancies in the operations or possible refusal of the bank to make payment. The various important elements in the consideration of letter of credit are: Nature and rules guiding letter of credit, types of letter of credits irrevocable, conferred and payable at sight, negotiation of the terms in letter of credit and associated document of letter of credit. State documents are unacceptable for collection.

Suppose Nigeria wishes to buy British cranes, then the Nigeria importer of cranes must look, through the Nigeria banking system, specifically through the commercial banks and ultimately through the central bank of Nigeria, for pounds sterling to pay the British suppliers of cranes.

Commercial invoices must match the L/C/ (Letter of credit) exactly. Dates must be carefully headed. The foreign exchange market is indeed a complex one.

## **2.0 LEARNING OBJECTIVES**

Upon successful completion of this unit, you should be able to do the following:

- Examine critically the international business payment means and foreign exchange market.
- Differentiate between drafts and letter of credit.
- Discuss the complex nature of the foreign exchange market.
- Identify the level of liquidity in the foreign exchange market.
- Explain the securities traded at the foreign exchange market and the financial and non financial market participants.
- Examine the determinants of exchange rate at the foreign exchange market.

### **3.0 MAIN CONTENT**

#### **3.1 INTERNATIONAL BUSINESS PAYMENTS AND FOREIGN EXCHANGE MARKET**

When making an international payment, a spot deal is a transaction based on the currency prevailing market rate for an agreed amount of currency. Using a spot deal offers you the flexibility to participate in daily market fluctuations. While the market convention is to settle spot transactions on the second business day after the deal is made. International business payments can be executed either through

international wire transfer also known as electronic fund transfer ETF and drafts.

Electronic funds transfer or telegraphic transfers is an irrevocably cleared direct credit to a nominated bank account. It is the fastest and most secure method of transferring international funds. Drafts are drawn on a reputable bank against the bank's own funds, ensuring that your customer will receive guaranteed cleared funds after the draft has completed the normal clearing process.

The foreign exchange market (Forex, Fx or Currency market) is a global, worldwide-decentralized financial market for trading currencies. Financial centers around the world function as anchors of trading between a wide range of different types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market determines the relative values of different currencies.

The foreign exchange market assists international trade and investment, by enabling currency conversion. For example, it permits a business in the United States to import goods from the United Kingdom and pay pound sterling, even though its income is in United States dollars. It also supports direct speculation in the value of currencies and the carry date, speculation on the change in interest rates in two currencies.

### **3.2 CONFIRMED IRREVOCABLE CREDIT**

After shipment is made, documents presented to the bank. After payment gives the seller a double assurance of payments. This depends on the terms of the letter of credit.

Assures shipment is made but relies on exporter to ship goods as described in documents. Terms may be negotiated prior to L/C agreement, alleviating buyer's degree of risk.

The inclusion of a second assurance of payments (usually a U.S. Bank) prevents surprises, and adds assurance that issuing bank has been deemed acceptable by confirming bank. Add cost an additional requirement to sellers.

### **3.3 UNCONFIRMED IRREVOCABLE CREDIT**

This is almost the same thing as above. Seller has single bank assurance of payments and seller remains dependent on foreign bank. Seller should contact his banker to determine whether the issuing bank has sufficient assets to cover the amount. Credit can be changed only by mutual agreement, as stipulated in a sales agreement. The agreement becomes open account with buyers bank as collection agent. Foreign bank may have problems making payment in sum or timeliness.

### **3.4 VARIOUS INTERNATIONAL MEANS OF PAYMENT**

#### **3.4.1 DRAFTS**

Remittance time from buyers bank to sellers bank may still take one week to one months, drafts by design should contain terms and conditions mutually agreed upon. A draft may be written with virtually any term or condition agreeable to both parties. When determining draft tenor (terms and conditions) consult with your banker and freight forwarder to determine the most desirable means of doing business in a given country.

Draft can be classified into sight draft and time draft

- Sight Draft (with documents against acceptance) on presentation of draft to buyer. After payment to buyers bank. If draft is not honoured, goods must be returned or resold. Storage, handling and return freight expenses may be incurred. It assures shipment but not content, unless inspection or check-in is allowed before payment. A draft can be a collection of instrument used to exchange possession and title to goods for payments. Seller is essentially drawing a check against the banker account of the buyer. Buyers bank must have pre-approval or seek approval of the buyer prior to honouring the check. This is payable upon presentation of documents.
- Time draft (with documents against acceptance) on maturity of the draft before payment, after acceptance relies on buyer to

honour draft upon presentation. This assures shipment but not content. Time of maturity allows for adjustments, if agreed to by the seller. Payment is based upon the acceptance of an obligation to pay the seller at a specified time. Although a time draft has more collection leverage than an invoice, it remains only a promissory note with conditions.

### **3.4.2 OPEN ACCOUNT**

As agreed under the business terms, usually by buyer to pay account as agreed. All terms of payment, including extra charges and terms should be mutually understood and agreed upon prior to open account initiation. Companies conducting ongoing business are candidates for open account terms of payment. The seller must measure not only buyer's credit reliability but the country as well.

### **3.4.3 CASH IN ADVANCE**

Transactions before shipment, after payment and non payment complete relies on seller to ship exactly the goods expected, as quoted and ordered sellers goods must be special in one way or another, or special circumstances prevail over normal trade practices. (e.g. goods manufactured to buyer-only specifications).

#### **3.4.3.1 LETTER OF CREDIT**



The letter of credit represents a unique and separate contract between the issuing bank and the seller of goods in the international market. Thus, a buyer has no right to interfere with the payment or operation under the credit. By implication, if a buyer works in collaboration with the bank to prevent payment. “as sometimes happens”-such acts will be considered as illegal. In order to protect the buyer from such practices, the banks are expected to insist that documents submitted by the exporter are strictly in compliance with the terms of the credit.

- **ELEMENTS OF THE LETTER OF CREDIT**

- **A. Contract Between Banks and Seller**

- Because it allows payment to be made immediately after delivery in the seller's own country. It is the most popular means of payment
- The legal rights and duties of the parties (bank and seller) are clearly laid down in the UCP (uniform customs and practices for documentary credits).
- It is a promise by the bank to pay a sum of money to the seller when the seller presents a given set of documents in good order.

- A seller of credit is a contract between the issuing bank and the seller.

#### **B. The Principles of Autonomy**

- A seller of credit is an “autonomous” contract. It has no legal connection with the sales contract that it supports. The bank must pay the seller if the documents presented are correct. This principle defends the interest of the seller

#### **C. The Principles of Strict Compliance**

- The bank promises to pay if the documents presented are correct. If the document in any way fails to comply strictly with the terms of the letter of credit, the bank must refuse to pay. This principle defends the interest of the buyer.

### **3.5 THE FOREIGN EXCHANGE MARKET**

In a typical foreign exchange transaction a party purchases a quantity of one currency by paying a quantity of another currency. The modern foreign exchange market began forming during 1970s after three decades of government restrictions on foreign exchange transactions (the Bretton Woods system of monetary management established the rules for commercial and financial relations among the world’s major industrial estate after world war II. When countries gradually switched

to floating exchange rates from the previous exchange rate regime, which remained fixed as per the Bretton woods system.

### **3.5.1 THE UNIQUENESS OF THE FOREIGN EXCHANGE MARKET**

The foreign exchange market is unique because of:

- a. Its huge trading volume representing the largest asset class in the world leading to high liquidity;
- b. Its geographical dispersion;
- c. Its continuous operation; 24 hours a day except weekends, i.e. trading from 20:15GMT on Sunday until 22:00GMT Friday;
- d. The variety of factors that affect exchange rates.
- e. The low margins of relative profit compared with other markets affixed income.
- f. The use of leverage to enhance profit and loss margins and with respect to account size. As such, it has been referred to as the market closest to the ideal of perfect competition, notwithstanding, currency intervention by central banks.

According to the bank for international settlements as of April 2010, average daily turnover in global foreign exchange markets is estimated at \$3.98 trillion, a growth of approximately 20% over the \$3.21 trillion daily volume as of April 2007.

### **3.6 THE LIQUIDITY LEVEL OF FOREIGN EXCHANGE MARKET AND SIZE**

The foreign exchange market is the most liquid financial market in the world. Traders include banks, central banks, industrial investors, currency speculators, corporations, governments, other financial institutions and retail investors. The average daily turnover in the global foreign exchange and related markets is continuously growing.

According to the 2010 Triennial central bank survey, coordinated by the bank for international settlements average daily turnover was US \$3.98 trillion in April 2010 (US\$1.7trillion in 1998) of this \$3.98trillion, \$1.5trillion was trade in outright forward swaps and other derivatives.

Trading in the united kingdom accounted for 35.7% of the total, making it by far the most important centre for foreign exchange trading. Trading in the united states accounted for 17.9% and Japan accounted for 6.2%

Most developed countries of the world permit the trading of derivative product (likes future) and options on futures) on their exchanges. All developed countries already have fully convertible capital accounts. Some governments of emerging economies do not allow foreign exchange derivative products.

### **3.7 PARTICIPANTS IN THE FOREIGN EXCHANGE MARKET**

Many emerging economies, countries such as Korea, South Africa, and India have established currency futures exchanges, despite having some capital controls.

Top 10 currency traders in the world market May, 2011.

<b>Country Name/currency</b>	<b>Rank</b>	<b>Percentage</b>
Germany Deutshe Bank	1	15.64%
United Kingdom Barclays capital	2	10.75%
UBS AG	3	10.59%
Citi	4	8.88%
JP Morgan	5	6.43%
H S B C	6	6.26%
Royal Bank of Scotland	7	6.20%
Credit Suisse	8	4.80%
Goldmand Sachs	9	4.13%
Morgan Stanley	10	3.64%

Source: Thisday Newspaper, July, 2011.

The increase in turnover is due to a number of factors: the growing importance of foreign exchange as an asset class, the increased trading activity of high-frequency traders, and the emergence of retail investors as an important market segment. The growth of electronic execution and the diverse selection of execution venues has lowered transactions costs, increased market liquidity, and attracted greater participant from nay customer types.

In particular, electronic trading via online portals has made it easier for retail traders to trade in the foreign exchange market.

## **MARKET PARTICIPANTS**

### **a. Financial market and securities**

- Public market - exchange securities
- Bond market – fixed income, corporate bond, government bond, municipal bond, bond valuation, high yield debt.
- Stock market – stock preferred stock, common stock, registered share, voting share, stock exchange.
- Derivatives, market – securitization, hybrid security, credit derivative, futures exchange.
- OTC, Non organized - sport market, forward swaps, options.
- Foreign exchange – exchange rate, currency

Other markets – money market, reinsurance market, commodity market, real estate market.

### **b. Foreign market accessibility**

Unlike stock market, the foreign exchange market is divided into levels of access. At the top is the interbank market, which is made up of the largest commercial banks and which is made up of the largest commercial banks and securities dealers. Within the interbank market, spreads which are the difference between the bid and ask prices, are razor sharp and not known to players outside the inner circle.

#### **(i) Bank**

The interbank market caters for both the majority of commercial turnover and large amounts of speculative trading everyday. Many large banks may trade billions of dollars, daily. Some of this trading is undertaken on behalf of customers, but much is conducted by proprietary desks, which are trading desks for the banks, foreign exchange brokers did large amounts of business, facilitating interbank trading and matching anonymous counterparts for large fees. Today, however, much of this business has moved on to more efficient electronic systems. The broker squawk box lets traders listen in on-going interbank trading and is heard in most trading rooms, but turnover is noticeably smaller than just a few years ago.

**(ii) Commercial companies**

An important part of this market comes from the financial activities of companies seeking foreign exchange to pay for goods or services. Commercial companies often trade fairly small amounts compared to those of banks or speculators, and their trades often have little short term impact on market rates.



**(iii) Central banks**

National central banks play an important role in the foreign exchange markets. They try to control the money supply, inflation, and/or interest rates and often have official or unofficial target rates for their currencies. The effectiveness of the central bank “stabilizing speculation” is doubted because central banks do not go bankrupt if they make large losses, like other traders would.

**(iv) Foreign exchange fixing**

This is the daily monetary exchange rate fixed by the national bank of each country. The idea is that central bank use the fixing time and exchange rate to evaluate behaviour of their currency. Fixing exchange rates reflects the real value of equilibrium in the market.

(v) Hedge fund speculators

(vi) Investment management firms

(vii) Retail foreign exchange traders.

(viii) Non bank foreign exchange companies

### **3.8 DETERMINANTS OF EXCHANGE RATES**

The following theories explain the fluctuations of exchange rates in a floating exchange rates regime (in a fixed exchange rates regime, rates are decided by the government):

- (1) International parity
- (2) Balance of payment
- (3) Asset market model

### **SELF ASSESSMENT EXERCISE**

Name the two categories of irrevocable credit policy.

### **4.0 CONCLUSION**

In this unit, you have learnt about the various means of payment in the international business—letter of credit etc. you have also learnt about the nature, scope and structure of the foreign exchange market. You have also gained a wider knowledge about the participants and securities traded in the foreign exchange market.

### **5.0 SUMMARY**

Supply and demand for any given currency, and thus its value, are not influenced by any single element but rather by several. These elements generally fall into three categories—economic factor, political conditions, and market psychology.

The economic factors include economic policy, disseminated by government agencies and central bank, economic conditions, generally revealed through economic report and the economic indicators. Economic policy comprises government fiscal policy, government budget surpluses and deficits, balance of trade levels and trends, inflation levels and trends. Economic growth and health; reports such as GDP and productivity of an economy.

## **6.0 TUTOR-MARKED ASSIGNMENT**

- Distinguish between sight draft and time draft.

### **ANSWER TO SELF ASSESSMENT EXERCISE**

The irrevocable credit policy can be confirmed or unconfirmed.

## **7.0 REFERENCES/FURTHER READING**

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## **UNIT TWO:     STANDARDIZATION VERSUS ADAPTATION**

### **CONTENT**

- 1.0           Introduction
- 2.0           Learning Objective
- 3.0           Main Content
- 3.1           Definition and Meaning of Standardization and Related  
              Terms
- 3.1.1         Argument for and against Standardization
- 3.2           Standardization and Communication
- 3.2.1         A Standardized Product and Communication
- 3.2.2         A Standardized Product and Adapted Communication.
- 3.3           Advantages of Standardization
- 3.3.1         Cost Economics
- 3.3.2         Consistency Amongst Consumers
- 3.3.3         Simplification of Planning and Control
- 3.4           The Drawbacks of Standardization
- 3.5           Favourable Conditions to Product Strategy Adapted
- 3.6           Definition of Adaptation
- 3.7           Major Types of Adaptation
- 3.7.1         Technical Adaptation
- 3.7.2         Commercial Adaptation
- 3.8           Conditions Favourable to Adaptation Strategy

4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignment
7.0	Reference/Further Reading

## **1.0 INTRODUCTION**

Scholars have presented a large variety of definitions to describe standardization and adaptation: with some terms being used interchangeably, despite having different labels (i.e. standardization /globalization and adaptation/Customization). In Medina and Duffy's article (1998:223) they highlight the current dilemma in state of knowledge in this field, expressing that "without properly defining and cross examination of the terms like standardization and globalization, it is going to be difficult to build a theory of the world's consumer market."

A company wishing to export has many different options with regard to adopting a communication strategy and specifically on the theme of advertising: standardization, adaptation and adapted standardization.

The choice between adapting or standardizing your communication, product, services ought to be looked at on a case by case basis. Even if you have the same objectives in all your target markets, it is very probable that it is necessary to alter the advertising according to cultural, social, and economic features of these markets, as well as the motivations to your target clients. Deciding to adopt a standardized or adapted advertising strategy will result in a balance between the

advantages of a single campaign, and those of a specific campaign on of each market.

In reality, companies often adopt a strategy incorporating these two extremes, the difficulty arising when deciding to what degree each will be enforced.

The different aspects which could be subject to standardization or adaptation are the following:

- The objectives of the campaign
- The target market
- The choice of media;
- The choice of message: in other words the advertising axis, and the creative format generally it is easier to transpose sales arguments beyond the boundaries of creative formats which are very sensitive to the legal, cultural, competitive and linguistic environment of the target consumers. However if the consumers in other market do not use the same criteria, to assess a product, it necessary to alter the perspective of the advertising.

## **2.0 LEARNING OBJECTIVE**

The purpose of this unit is to let you understand:



- The definition and explanation of the terms standardization and adaptation in business.
- The managerial and contingency perspectives as regard standardization and adaptation.
- The argument for or against standardization and adaptation.
- The business process modeling and standardization.
- The various factors affecting standardization and adaptation of products and services.
- The ideal versus actual international marketing strategies.
- Distinguishing between technical and commercial adaptation

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION AND MEANING OF STANDARDIZATION AND ADAPTATION**

During the development of a product strategy, you have to decide in what measure the global supply of your product will be standardized or adapted for your export markets:

- Standardization
- Adaptation

The company which applies a standardization policy to its product offers a unique version of a product (the product sold in the domestic market) in all of its foreign markets.

In its profitability study (which depends jointly on costs and sales) the company which opts for standardization of the supply will prefer a strategy of cost minimization.

Standardizing a product can be done for many of its components: for example, on the level of product design or its packaging). (ex: multilingual packaging).

**Standardization:** is defined literarily as “the process of extending and effectively applying domestic or foreign target –market-dictated product, tangible and/or intangible attributes- to markets in foreign environments”, (Meding and Duffy 2008:263).

Whereas globalization is presented as “the process of adopting country-and target-market-dictated products standards –tangible and/or intangible attributes–from environments around the world to achieve a highly –uniform product (Meding and Duffy & 1998:230).

### **3.1.1 ARGUMENT FOR AND AGAINST STANDARDIZATION**

Arguably, these definitions appear to be closely associated and could therefore be used interchangeably.

Advocates of standardization claim it is/has emerged from greater marketing stimuli, advanced technology and communication, convergence of consumer needs and preferences and increasing global competition (Levitt, 2001). The fact that standardization is suitable to

generate economics-of-scale through generic implementation of strategies and multinational perspectives makes the standardization strategy very relevant in, what has been proposed as today's "consumption era".

Further, standardization has been argued to have many positive effects on a firm's operation, besides assisting the achievement of economics of scale. Fast learning experiences and reduced cost of inventory handling, design and modification of the products will not only save costs but also allow a company to build a competitive edge. Additionally, it has been argued that standardization will allow for greater product innovation because of a company can allocate more of its efforts towards developing the product portfolio rather than spending assets adapting it to different markets (Kotabe, 2000).

## **3.2 STANDARDIZATION AND COMMUNICATION**

Product standardization can adjust itself with standardized or adapted communication:

### **3.2.1 A standardized product and communication**

This corresponds to the supply of a perfectly identical product (example coca-cola). It is the simplest strategy for an exporting company which therefore offers the same product to all its foreign markets with the

same communication campaigns and promotional arguments which they use in the domestic market:

### **3.2.2 A Standardized Product and Adapted Communication**

Corresponds to the discovery of new uses for the product (example: packet soups sold as soups in Europe and as sauces in the United States). Within this strategy, the company exports a product absolutely identical but the job which it does and the function which it fulfils is different to that for which it was initially designed. The only costs incurred by this approach are connected to identifying different functions of the product (R &D), investigating consumers) and to altering the communication strategy according to the newly identified uses. This low cost strategy enables moreover the life cycle of a domestic product to be lengthened and therefore new market to be found.

Generally, it is possible to standardize products completely in foreign markets. Actually, despite the potential benefits of standardization, there are great obstacles linked to foreign markets (Climate, culture of local consumers, level of revenue, legal constraints,...) which

### **3.3 THE ADVANTAGES OF STANDARDIZATION**

Three paramount advantages generated by standardizing the product are the following

### **3.3.1 Cost Economics**

Economics of scale on the level of production and R &D (Research and Development) by offering the same basic product in different markets, the company can make economics connected to mass production and storage. It can pass the expenses on Research and development onto greater production volumes and therefore reduce the total cost of the unit price.

### **Economics connected with communication**

Even when the communication policy is adapted to each market, the company can generate economics of scale on the subject of communication when its products are standardized. Actually, communication tools such as company documentations and advertising have more chances of being similar through markets where the product is identical.

### **3.3.2 Consistency amongst consumers:**

Many thanks to the standardization of its product, the company can benefit from a homogenized and consistent brand image through the markets. This homogeneity of the offer is particularly important to preserve the loyalty of “multinational” consumers. The new type of consumer, who is extremely mobile and has privileged access to other markets. Thanks to developments in transport (planes) and new

information and communication technology (Tv, Internet, newspapers,...) requires of the product that performances are standardized from one market to another. A company which exports products which are likely to be bought and consumed by these “multinationals” must take their demands into account.

### 3.3.3 Simplification of planning and control

A product standardization strategy is a lot less complicated to set up and is operational very quickly.

## **3.4 THE DRAWBACKS OF STANDARDIZATION**

Despite the economics of scale, which it generates, standardizing a product can however lead to failure. Indeed, this strategy does not take into account the differences in cultures, taste, needs, purchasing power of consumers in different markets.

The company which adopts this strategy, risks offering “the lowest common denomination” which does not satisfy and client. It does not take into account the differentiation strategies of local competitors nor possible market evolution.

In doing this, it’s commercial efficiency risks being reduced and the volume of sales not being satisfactory driving forces of standardization.

### **3.5 FAVOURABLE CONDITIONS TO PRODUCT STRATEGY**

#### **ADAPTED**

There are certain conditions where adopting a standardization strategy for the product supply is favourable:

3.5.1 When the company, which is slightly internationalized export selectively. Companies which export passively (non solicited orders request for prices from abroad, without the company having made enquires there) or which consider foreign sales as a supplementary market which enables surplus stocks of a domestic product to be sold, tend to adapt their products slightly, or not at all to the specifications of the markets.

3.5.2 When the company is slightly competitive and occupies a dominant position, finds itself in a favourable power straight in view of distributors and consumers. A company which markets a strongly innovative new product where the supply is limited can exert pressure on the world demand and has no need to adapt to the foreign market.

3.5.3 When the company has limited financial human, or production resources.

3.5.4 When the cost of adapting the product is too high. Therefore, due to the fact of its high research and development costs, a highly

technical product will be less susceptible to being adapted than another product.

3.5.5 When the consumers have uniform purchasing powers in different markets

3.5.6 When the price is an essential purchasing factor for consumers as standardization enables this to be reduced greatly.

3.5.7 When the product satisfies a universal need as it results from relatively homogenized market segment where tastes and desires converge through the borders. Homogenized market sections strive to development themselves following the development of international means of transport and communication devices which render people more conscious of tastes for those coming from other countries. For example, on the subject of musical tastes, the preferences of adolescents in Tokyo are closer to those of young Londoners of French than those of their own parents.

### **3.6 ADAPTATION: DEFINED AND DISCUSSED**

Adaptation and customization are other terms that have been used interchangeably. Generally speaking, adaptation and customization are the opposite of standardization (i.e. Douglas and Wind 1998, Zymon Ski et al, ....1993).



However, Meding and Duffy (2008) define adaptation and customization as two distinct marketing and business strategies. Adaptation is described as “the mandatory modification of domestic target-market-dictated product standards- tangible and/or intangible attributes – as to make the product suitable to foreign environmental conditions (Meding and Duffy, 2008:231). Whereas, customization is defined as “the discretionary modification of domestic target market-dictated product standards-tangible and intangible attributes –as to make it economically and culturally suitable to foreign customers” (Meding and Duffy, 2008:232).

The main difference, and arguable important factor between these two definitions, is the fact that one is mandatory and the other is discretionary. Although both influences either directly or indirectly, a firm’s international business operations, the adaptation affects mostly the tangible (or physical) attributes of a strategy because it focuses on environmental conditions of various markets. Customization on the other hand is mostly affected by such factors as cultures and therefore has a deeper impact than adaptation, on the intangible (or non-physical) attributes of products (Theodosiou and Leonidou, 2003).

Adapting a product for foreign market consists of offering a product to target foreign consumers altered to specific tastes preferences and needs. The extreme position of adaptation would consist of altering the

product unit it is completely new. Adaptation can logically concern all the characteristics of the product (central physical product, name and denomination, design, packaging and labeling, brand, additional services, positioning...). Adaptation of a product signifies that the company is opting for maximizing sales and not minimizing cost in its search for profitability!

Above some products, for which a certain standardization in tastes is observed, or for which the segmentation criterion are international, the adaptation policy of the product remains predominant. This strategy will be adopted if the sales forecast justifies the cost of adapting the products.

### **3.7 MAJOR TYPES/CATEGORIES OF ADAPTATION**

Generally, it is agreed on to distinguish technical adaptation and commercial adaptations.

#### **3.7.1 TECHNICAL ADAPTATIONS**

Technical adaptations concern all of the obligatory, minimal adaptations of the product to which the company must conform in order to be able to “put into consumption” its product. Alterations of a regulation nature are imposed by the law and by public powers and

condition how a market is accessed. It can be connected to the following factors:

- Customs policies certain modifications have to be made in order to respect customs procedures before “putting into consumption;
- Taxation policy, for example, the power of cars tends to be lower in countries where cars are taxed according to engine power (for example, in France and Belgium,...)
- Local professional certification;
- National standards (for example: electric voltage)
- Technical regulations (notably concerning grocery products, medicines, electrical equipment...). Technical adaptation of the product also include alterations of a structural nature, linked to geographical and climatic characteristics religious standards, and language differences.

### **3.7.2 COMMERCIAL ADAPTATIONS**

Commercial adaptations are of a marketing nature. They translate into considering the level of supply, consumer expectations and socio-cultural aspects of the foreign market according to the chosen positioning. Commercial adaptation is a factor which determines commercial success.

These adaptations are connected to economic and socio-cultural aspects following the targeted foreign consumers:

- Consumption habits
- Preference and tastes
- Level of income (which influences the frequency of purchase but also the size of packaging?)
- Level of education and literacy which influences the packaging and labeling.

### **3.8 FAVOURABLE CONDITIONS TO ADAPTATION STRATEGY**

There are certain circumstances which favour using an adaptation strategy for the offered product:

- When the company has a low reputation and finds itself in an unfavourable balance of power with local consumers and distributors.
- When the company has plentiful, human and productive resources available or it has local production sites or branches.
- When the product (industrial or consumer goods) is subject to local legislation and regulations within the field of grocery or medical products.

- When the conditions for using the product are different in the foreign market due to the effect of factors such as the level of expertise and education of users, the market infrastructure and technical standards

### **SELF ASSESSMENT EXERCISE**

- Differentiate between standardization and globalization.

### **4.0 CONCLUSION**

To make up for the perceived drawback to standardization and adaptation, a contingency approach is advocated, describing it as the middle ground between full standardization and adaptation. The definition implies that standardization and adaptation should not be seen in isolation from one another, but rather as two extreme ends of the same continuum, where the degree of a firm's international marketing strategy could range anywhere between the quest to standardize or adapt an international marketing or business strategy. Firms are exposed to the challenge of selecting which components of the strategy to be applied.

### **5.0 SUMMARY**

It should be noted that international marketing strategies are composed of product, price, place (distribution) and promotion (Kotler et al.,

2000), it can be argued that the impact or degree of standardization or adaptation can vary amongst these. It can categorically be concluded that it is the promotional and product components of the international marketing strategy are the foundations of the standardization/adaptation debate.

Having identified the choices management is confronted with when formulating strategies, it has become clear that standardization and adaptation refers to distinct and opposite perspectives. Factors such as environmental factors, market characteristics, customer issues, competition, product and industry, organizational factors, managerial factors and performance affect standardization and adaptation

## **6.0 TUTOR MARKED –ASSIGNMENT**

- Discuss critically some of the favourable conditions to adaptation business strategy.

### **ANSWERS TO SELF ASSESSMENT EXERCISE**

Standardization is the process of extending and effectively applying domestic target-market-dictated product standards tangible and/or intangible attributes –to markets in foreign environments” whereas globalization is presented as the process of adopting country and target–market-dictated product standards tangible and/or intangible

attributes-from environments around the world to achieve a highly –  
uniform product.

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## **UNIT THREE: INTERNATIONAL BUSINESS RESEARCH**

1.0 Introduction



- 2.0 Learning Objectives
- 3.0 Main Content
  - 3.1 Definition and Mining of Business Research
    - 3.1.1 General Features of Business Research
    - 3.1.2 Planning Business Research
  - 3.2 Roles of Research in Business
  - 3.3 Skills of Scientific Investigation
  - 3.4 General Problems of Business Research in Developed and Developing Countries
  - 3.5 Dilating International Business Research
    - 3.5.1 Distinguishing International Business Research and Domestic Research
  - 3.6 Conducting Secondary Research/Sources of Data Identification
    - 3.6.1 Government
    - 3.6.2 International Organization
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    - 3.6.5 Directories and News Letters
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    - 3.7.1. Industrial Versus Consumer Services of Data
    - 3.7.2. Determining The Research Technique
  - 3.8 The International Information System

- 3.8.1 Environmental Scanning
- 3.8.2 Delphi Studies
- 3.8.3 Scenario Building
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 Reference/Further Reading

## **1.0 INTRODUCTION**

The essence of business research include obtaining more detailed information for business expansion or monitoring the political climate so that the firm successfully can maintain its international operation. Information may be needed to enable the international manager to evaluate new business partners or assess the impact of a technological breakthrough on future business operations. The better defined the research objective is the better the research will be able to determine information requirements and thus conserve the time and financial resources of the firm.

Research is a systematic process of providing solution or answers to questions or issues by following certain logical operations or step called research process. From a broad perspective business research can be characterized under three dimensions or perspectives. The first has to do with an underline investigation implicit in any research work. This means that all researches have an element of investigation.

Secondly research in business has a clearly well defined and an acceptable standard operating procedure.

Thirdly, success in business research have it that a purpose must be clearly stated in terms of relevant usefulness and applicability. Just as management would want to have some details on a domestic supplier,

the importer needs to know, for example, about the reliability of a foreign supplier, the consistency of its product or service quality, and the length of delivery time. Information obtained through the subsidiary office of a Bank or an embassy can prove very useful.

## **2.0 LEARNING OBJECTIVES**

Upon successful completion of this unit, you are expected to:

- Clearly distinguish between domestic and international research.
- Discuss the general features of business research.
- Examine the roles of research in business identify the skills of scientific investigation.
- Explain some of the general problems affecting business research in developing and developed countries of the world.
- Dilate copiously the sources of secondary and primary data.

## **3.0 MAIN CONTENT**

### **3.1 DEFINITION AND MEANING OF BUSINESS RESEARCH**

Contemporary world has witnessed sophisticated technological and scientific innovations as outcomes, principally of research. The advancement that will be witnessed in various sphere of life in the years ahead will equally be attributable to research. When there is need for

improvement in product quality, service quality, when problems are unresolved and when questions remain unanswered in any sphere of life, e.g. educational, political, socio economic, socio-cultural, environmental, biological, scientific, technological, business etc. Research becomes imperative.

Business research in simple terms can be defined as investigation, scholarly inquiry, a scientific study of phenomenon, systematic or in-depth study of subject undertaken to discover and establish facts or scientific laws or to improve a condition, process or product through observation, data collection, data analysis and interpretation.

Research in business is an investigative process of finding reliable solutions to problems through a planned and systematic selection, collection, analysis and interpretation of data relating to the problem.

### **3.1.1 GENERAL FEATURES OF BUSINESS RESEARCH**

It can be deduced from the above definitions that for any exercise to be tagged research, it must have the following characteristics:

- a. Business research must at first aim at solving a problem.
- b. It must be conducted in a systematic and objective way.
- c. Business research is based on certain observable experiences and predictions.

- d. Research leads to the development of generalization principles or theories that will be helpful in predicting future occurrences e.g. Delphi studies.
- e. Business research involves planned and logical scientific thinking.

### **3.1.2 Planning Business Research**

The key decision area in business research is planning. It is productive and purposeful to consider the what, why, how and who of research at the research planning stage. Example:

- Variables – What have/set out to study?
- Objective/rationale – Why am/ undertaking the study?
- Research design – How shall I study them?
- Samples – Who shall I study?
- What sort of evidence shall I get and in what form? – Analysis.

The answer to these questions will help you to have a clear focus on the research. Besides, the sole responsibility of a business development manager is to investigate the economic condition surrounding your small business activity such as industry. On the other hand, operational research in business problems will provide information regarding the day to day operations of the business.

Information technology in business is all about storing, manipulating, distributing and processing data and information for efficient decision making.

### **3.2 THE ROLES OF RESEARCH IN BUSINESS**

The relevance of business research cannot be overemphasized. Some of the reasons for the need of research in business include:

- (i) The business development manager at domestic and international level investigates the economic condition surrounding your small business activity such as industry.
- (ii) Business research brings about rapid social and technological changes in the business world.
- (iii) It provides solutions to all forms of complex business problems.
- (iv) Research generally is a means of breaking new grounds and to bring about development and progress.
- (v) Business research brings about advancement of knowledge. E.g. fortified sales force automation system.
- (vi) It also brings about development and refinement of theories.

### **3.3 THE SKILLS OF SCIENTIFIC INVESTIGATION**

Basically, there are three major sources for undertaking business research and each of these sources influences the approach used.

- **Theoretical approach:** Within the context of theoretical approach, decisions and actions are taken on the basis of opinions of textbooks, journals published financial statements of organizations. It is prevalent (common) in the third world countries.

This approach is faulty in the sense that even experts can make mistakes that may be misleading and dangerous.

- **Practical approach:** This is the procedure used in very complex business research studies such as in marketing, banking operations, marine and shipping business, import and export business etc.

The research benefits from what others have done or important lessons are learnt from other individuals (corporate) previous experience. It is usually in a small scale.

- **Empiricism:** This is the most useful and sustainable approach to research. Here, the researcher proceeds with those actions designed to ensure that variable being investigated are quantifiable they have certain scope and testable. Empiricism is preferable because it is scientific, possible to predict and explain



why certain events occur the way they do. Moreover, all confusions and contradictions can be minimized and controlled.

### **3.4 GENERAL PROBLEMS OF BUSINESS RESEARCH: DOMESTIC AND INTERNATIONAL**

The following form the major constraints to the conduct of effective business research in developing and developed countries of the world:

- a. **Illiteracy:** This is one of the most serious problems facing the developing countries, business research and researchers. It handlers effectiveness of research in developing countries because.

Most research instruments require the ability of the respondents or sample to read and write. It leads to suspicion and reluctance to supply the desired information that might chance their life. Many illiterates are left out of research samples because of difficulty of obtaining pertinent information from them.

- b. **Poor communication/language barrier:** Effective communication and language barrier also constitute serious problems to business researchers in developing countries and their developed counterparts in the sense that:

The roads and telecommunication systems in most of these countries are poorly developed. There is lack of effective and

efficient transport system many of the towns and villages are so remote that they are not easily accessible for unidentified (untapped) business opportunities. Also, countries of the world are multi-ethnic with each having its own language and no national language except may be English and French, which are foreign and which most indigenes cannot speak.

- c. **Unavailability of data:** Collection of data is very important in a research step meanwhile, data are not available. Where they are available are not accessible and this pose great problems to research in developing countries because of lack of or poor recording keeping culture. Where records are kept, they are neither accurate, updated nor reliable.
  
- d. **Inadequate financing of business research project:** Conducting a business research has always been a very expensive exercise interms of money, time, energy etc require. Business research projects are supposed to be properly funded by the government because it contributes in no small measure to national development and progress. However, researchers are either not funded at all or poorly state of such nation's economy. Lack of understanding and cooperation of the people in government to appreciate the contributions of research to overall national development.

- e. **Lack of necessary equipment, facilities and materials:** As usual, a lot of equipment, facilities and materials are needed for conducting meaningful business research. In developing countries, this constitute a major problem to research because these materials, equipment and facilities are either not available at all. Where they are available they are grossly inadequate. It is either they are not working or obsolete. Current journals, periodicals and textbooks are extremely difficult to get.
- f. **Lack of support from non-governmental organizations (NGO):** In developing nations of the world, the funding of business research is not left to the government. Non governmental organization embarks on funding of research as a means of improving their operational effectiveness that they easily and promptly commercialize major scientific and technological breakthrough. This is not the case in developing countries where NGOs are only out to invest in areas where they can make huge and immediate profits. Even in developing countries, many of the research projects are financed by foreign NGOs like FORD foundation, USAID, and so on.
- g. **Secrecy and taboo:** In governmental organizations, parastatals, industries, consortiums and conglomerates, most information that should be released for consumption are considered secret

and so are either not released or faked. A lot of meanings are always read into any information collection exercise. It is also considered a taboo to count the number of children, wives, properties an individual has in some African tribes. This is one of the problems of census in developing countries (Azika 2009).

### **3.5 DILATING INTERNATIONAL BUSINESS RESEARCH**

Before research can be undertaken, research objectives must be determined. They will vary depending on the views of management, the corporate mission of the firm, the firm's level of internationalization and its competitive situation.

#### **3.5.1 Distinguishing International Business Research from Domestic Research**

The tools and technique of international research are the same as those of domestic research. The distinction is the environment to which the tools are applied. The environment determines how well the tools, techniques, and concepts work. Although the objectives of research may be the same, the execution of international research may differ substantially from that of domestic research. The four primary reasons for this difference are environmental factors, an increase in the number of factors involved, a broad definition of competition and new parameters.

- Environmental factors when going international, a firm is exposed to an unfamiliar environment. Many of the domestic assumption on which the firm and its activities were founded may not hold true internationally. Management needs to learn the culture of the host country, understand its political systems and level of stability, and comprehend the existing differences in societal structures and language. It must in addition understand pertinent legal issues in order to avoid violating local laws.
- Other factors involved: Environmental relationship need to be relearn whenever a firm enters a new international market. The number of changing dimensions increases geometrically. Coordination of the interaction among the dimensions becomes increasingly difficult because of their sheer number. Such coordination, however, is crucial to the international success of the firm of two reasons. First, in order to exercise some central control over its international operations a firm must be able to compare results and activities across countries. Otherwise any plan made by the headquarters may be inappropriate. A major reason why managers are reluctant to engage in international research is their lack of sensitivity to differences in culture, consumer tastes and market demands. Often managers assume

that their methods are both best and acceptable to all others.

Also, a limited appreciation for the different environments abroad.

### **3.6 CONDUCTING SECONDARY RESEARCH/SOURCES OF DATA IDENTIFICATION**

On many occasions, firms can make use of secondary data, that is, information that already has been collected by some other organization.

A wide variety of sources present secondary data. The fundamental ones are governments, international institutions, service organizations, trade associations, directories and other firms.

**3.6.1 Government:** The information provided by governments addresses either macro data and micro data. Macro information data on population trends, general trade flows among countries, and world agriculture production. Micro information includes materials on specific. Industries in a country, their growth prospects, and their foreign trade activities.

**3.6.2 International organization:** The statistical year book produced by the United Nations (UN) contains international trade data on products and provides information on exports and imports by country. However, because of the time needed for worldwide data collection, the information is often quite dated. Data or information under this can be obtained from United Nations

conference on trade and development. The world Atlas, annual trade data of organization for economic cooperation etc.

- Service organizations
- Trade associations
- Directories and newsletter

### **3.7 CONDUCTING PRIMARY RESEARCH**

Primary data are obtained by a firm to fill specific information needs. Firms specialize in primary international research which intends to answer such clear cuts questions as: what is the sales potential for our measuring equipment in Malaysia?

### **3.7.1 Industrial versus consumer sources of data**

The researcher must decide whether research is to be conducted in the consumer or the industrial product area, which in turn determines the size of the universe and respondent accessibility. Consumers usually are a very large group, whereas the total population of industrial users may be limited.

**3.7.2 Determining the research technique:** This depends on a variety of factors. The subjective of the data sought must be determined. Standardized techniques are more useful in the collection of objective data than of subjective data. As in domestic research, the types of available are interview's focus, group, observation, surveys, and experimentation.

### **3.8 The international information system**

An information system can provide the decision maker with basic data for most ongoing decisions. Defined as "the systematic and continuous gathering, analysis and reporting of data for decision -making purposes. Such a system serves as a mechanism to coordinate the flow of information to corporate managers.

One area where international firms are gradually increasing the use of information system technology is in the export field. In order to stay close to their customers, proactive firms are developing export



complaint systems. To build an information system, corporations use the internal data that are available from divisions such as accounting and finance and also from various subsidiaries.

Many organizations put mechanisms in place to enrich the basic data flow to information systems. Three of such mechanisms are environmental scanning, Delphi studies and scenario building.

### **3.8.1 Environmental Scanning**

Environmental scanning models can be used for a variety of purposes, ranging from the development of long-term strategies and getting managers to broaden their horizons to the structure of actions plans.

Environmental scanning can be performed in various ways. One consists of obtaining factual input on a wide variety of demographic, societal and economic characteristics of foreign countries.

**3.8.2 Delphi studies are the opposite of brain storming.** It is a means for aggregating the judgment of a number of experts who cannot come together physically.

- Scenario building

## **4.0 CONCLUSION**

In this unit, you have successfully covered a whole lot of about international business research. You have studied the nexus between international research and domestic research, the sources of secondary and primary data.

### **SELF ASSESSMENT EXERCISE**

- Highlight some of the basic constraints to international business research.

### **5.0 SUMMARY**

Pitfalls such as time, resources, and expertise are the major inhibition to international research. The major distinction between international research and domestic research depends on the environment it is applied. This determines how well tools, techniques and concepts apply is different abroad. Information system is useful in providing ongoing information to business managers.

### **6.0 TUTOR MARKED ASSIGNMENT**

- Critically distinguish between international research and domestic research.

## **ANSWERS TO SELF ASSESSMENT EXERCISE**

- Illiteracy
- Resources
- Time
- Language barrier
- Non-availability of data
- Poor or obsolete facilities and
- Lack of support from Non-Governmental Organization makes research difficult and successful.

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**UNIT FOUR:       ORIGIN AND CONTROL OF INTERNATIONAL  
OPERATIONS**

**CONTENTS**

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- 2.0       Learning Objective
- 3.0       Main Content
  - 3.1       Nature and Scope of International Operation
  - 3.2       Multinational Enterprise (MNE)
  - 3.3       Conduct of International Operations
    - 3.3.1     Factors Affecting the Decisions of International Operations
    - 3.3.2     Growth in Globalization
    - 3.3.3     Why International Operations is Necessary.
  - 3.4       The Tenets When Going Global
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  - 3.6       Global Organization Structure and Design
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- 6.0       Tutor-Marked Assignment
- 7.0       References/Further Reading

## **1.0 INTRODUCTION**

International firms can choose from a variety of organizational structures, ranging from a domestic organization that handles ad hoc export orders to a full fledged global organization. The choice will depend heavily on the degree of internationalization of the firm, the diversity of international activities, and the relative importance of product, area, function, and customer variables in the process. A determining factor is also the degree to which headquarters wants to decide important issues concerning the whole corporations and the individual subsidiaries. Organizations that function effectively still need to be revisited periodically to ensure that they remain responsive to a changing environment.

Organizations, the control function takes on major importance for multinationals, due to the high variability in performance resulting from divergent local environments and the need to reconcile local objectives with the corporate goal synergism. While it is important to grant autonomy to country organizations so that they can be responsive to local market needs. It is of equal importance to ensure close cooperation among units to optimize corporate effectiveness. The implementation of controls requires great sensitivity to behavioural dimensions and the environment.

## **2.0 OBJECTIVE OF THE UNIT**

At the end of this unit, you are expected to do the following:

- Discuss the nature and scope of international operation
- Examine the organization of multinational enterprise.
- Discuss the conduct of international operations.
- Explain the factors affecting the decisions about international operations.
- Give some of the reasons why international operation is necessary.
- Highlight the tenets when offering advice to business going global.
- Trace briefly the origin of international operations
- Examine the global organizational structure and design.
- Explain controls/types.

## **3.0 MAIN CONTENT**

### **3.1 THE NATURE AND SCOPE OF INTERNATIONAL OPERATION**

International operations is a term used collectively to describe all commercial transactions (private and governmental, sales, investments, logistics and transportation) that take place between two or more regions, countries and nations beyond their political boundary. Usually, private companies undertake such transactions for profit; governments

undertake them for profits and for political reasons. It refers to all those business activities which involves cross border transactions of goods, services, resources between two or more nations. Transactions of economic resources include capital skills people etc. for international production of physical goods and services such as finance, banking, insurance, construction, health etc.

### **3.2 MULTINATIONAL ENTERPRISE (MNE)**

This is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called Multinational Corporation (MNC) or transnational company (TNC).

Well known MNCs include fast food companies such as McDonalds and Yum Brands, vehicle manufacturers such as General Motors, Ford motors company and Toyota, Consumer electronics companies like Samsung, LG and Sonny, and energy companies such as Exxon Mobil, shell and BP. Most of the largest corporations operate in multiple national markets Areas of study within this topic include differences in legal systems, political systems, economic policy, language accounting standards, labour standards, living standards, environmental standards, local culture, corporate culture, foreign exchange market, tariffs, import and export regulations, trade agreements, climate,



education and many more topics. Each of these factors requires significant changes in how individual business units operate from one country to the next.

### **3.3 THE CONDUCT OF INTERNATIONAL OPERATION**

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

- **Operations:** Objectives; sales expansion, resource acquisition, risk minimization.
- **Means:** Modes; importing and exporting, tourism and transportation, licensing and franchising, turnkey operations, management contracts, direct investment and portfolio investments.
- **Functions:** marketing, global manufacturing and supply chain management, accounting, finance, human resources.
- **Overlaying alternative:** choice of countries, organization and control mechanisms.

#### **3.3.1 FACTORS AFFECTING THE DECISIONS ABOUT INTERNATIONAL OPERATIONS**

Many authors use the term international operation hand in hand with international business. Before a business go international, consultations, analysis, researches about climates and studies about culture policies have to be undertaken before a final decision is made. Several factors occasion either on a good effect or bad in one way or the other as follows:

**a. Physical and social factors**

This include political policies and legal practices, cultural factors, economic forces, geographical influences.

**b. Competitive factors**

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

**3.3.2 GROWTH IN GLOBALIZATION**

Globalization refers to the merging historically distinct and separate national market into one huge global market. It is not a subject of debate that, the task and preferences of a consumer in different countries are beginning to show great sign of increasing demand for global warming. Thereby, helping to create a global market. The world acceptances of consumers products such as master card, credit card, coca-cola, Leventies jeans etc.

There has been growth in globalization in recent decades due to the following eight factors.

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

### **3.3.3 THE RELEVANCE OF INTERNATIONAL OPERATIONS**

Studying international operation (business) is important because:

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

- An understanding helps you decide what governmental policies to support.

Managers in international business must understand social science disciplines and how they affect all functional business fields.

### **3.4 THE TENETS WHEN GOING GLOBAL**

Tom Travis, the managing partner of Sandler, Travis & Rosenberg, PA and international trade and customs consultant, uses the six Tenets when giving advice on how to globalize one's business. The six Tenets are as follows:

- a. Take advantage of trade agreements: think outside the border
  - Familiarize yourself with preference programs and trade agreements.
  - Read the fine print,
  - Participate in the process
  - Seize opportunities when they arise.
- b. Protect your brand at all costs
  - You and your brand are inseparable
  - You must be vigilant in protecting your intellectual property both at home and abroad.
  - Protect your worldwide reputation by strict adherence to labour and human right standards.

- c. Maintain high ethical standards
  - Strong ethics translates into good business.
  - Understand corporate accountability laws
  - Become involved with the international business self-regulation movement.
  - Develop compliance protocol for import and export operations.
  - Memorialize your company code of ethics and compliance practices in writing.
  - Appoint a leader.
- d. Stay secure in an insecure world
  - Stay secure in an insecure world
  - Securities require transparency through the supply chain.
  - Participate in trade-government partnerships
  - Make the most of new security measures
  - Secure your data and keep your personnel secure
- e. Expect the unexpected
  - The unexpected will happen
  - Do your research now
  - Address your particular circumstances
- f. All global business is personal
  - Go to the source
  - Keep communications open

- Keep the home office operational
- Fly the flag at your overseas locations
- Relate to offshore associates on a personal level.
- Be available to overseas clients and customers 24/7.

### **3.5 ORIGIN/TREND OF INTERNATIONAL OPERATION**

Multinational corporations do not emerge over night they usually pass through states of evolution to become what is today referred to as global company. The process can be grouped as trade assembling or production, integration, intervention of production for foreign countries. It is also important to note the characteristics of international operations and her early development, the post war development and the recent trend.

- **Early Development:** International trade is many centuries old. It started about 16 to 17<sup>th</sup> centuries. Individual seeking self fortune first motivated the desired for historical concept of international trade. During this era goods were normally exotic goods, sold at home for roaring princes. It was delighted to create fabulous profit that could motivate some firms to operate abroad.
- After industrial revolution, the Nature of International Business changed drastically such that systems witnessed significant influence whereby international enterprise came to engage in-

Extraction, processing and transportation of raw material and shipping for industrial plant located in home countries.

- After the great over of 1914-18 international business fortune widened. They entered in the area of government of host countries could not operate effectively. For these, most countries gave western countries many concessions.

### **The Post War Development**

International business by mid 1940 documented that the US economy turned out to be strongest economy in the world. Particularly as most US industries are well develop.

Similarly, the US economy rose from development to increased requirements for new raw material. Consequently she wanted to capture large share of worked marked. All these led to rapid industrialization US Company particularly the multinational enterprises. For instance, Foreign Direct Investment (FDI) rose from 1950 to 70 from US\$12B to US\$80billion. As from 1960 there was significant evidence that many European firms also went international. This was within the environment of fast growing Japanese multinationals.

Since 1970s the firm of developing countries too began interventional operations in two major areas namely:

(a) Oil exporting (b) Newly industrialized country who imported technology from developed and built self capacity

- **Recent Trend**

The post couple of decades as documented above witnessed significant growth of international business. It was however constraints by oil shock, strictly practices of many developing countries trying to adopt import substitution policy. By mid 80s the picture had changed to signal the arrival of new international business order.



### **3.6 GLOBAL ORGANIZATION STRUCTURE AND DESIGN**

The basic functions of an organization are to provide (1) a route and locus of decision making and coordination and (2) a system for reporting and communications. Authority and communication networks are typically depicted in the organizational chart. The basic configurations of international organizations correspond to those of purely domestic ones; the greater the degree of internalization, the more complex the structures can become. The types of structures that companies use to manage foreign activities can be divided into three categories, based on the degree of internationalization:

- Little or no formal organizational recognition of international activities of the firm. This category ranges from domestic operations handling an occasional international transaction on an adhoc basis to firms with separate export departments. In the very early stages of international involvement, domestic operations assume responsibility for international activities. The role of international activities in the sales and profits of the corporation is initially so minor that no organizational adjustment takes place.
- International division: firms in this category recognized the ever-growing importance of the international involvement. The international division concentrates international expertise,

information flows concerning foreign market expertise, information flows concerning foreign market opportunities, and authority over international activities. However, manufacturing and other related functions remain with the domestic division to take advantage of economics of scale.

- **Global organizational structures:**

In many industry competition is on a global basis, with a result that companies must have a high degree of reactive capability. Six basic types of global structures are available:

- Global product structure, in which product divisions are responsible for all manufacturing and marketing worldwide.
- Global area structure, in which geographic divisions are responsible for all manufacturing and marketing in their respective areas.
- Global functional structures, in which functional areas (such as production, marketing finance and personnel) are responsible for the worldwide customer groups.
- Mixed-or hybrid-structures, which may combine the other alternatives.
- Matrix structures in which operations have reporting responsibility to more than group (typically, product, functions, or area).

### **3.7 CONTROL/TYPES**

Control is a continuous process of identifying and correcting deviations from desired standards of performance. Therefore, it is a systematic effort to set performance standards with planning objectives to design information with these predetermined standards to determine whether there are any deviations and to measure their significance and to take any action required to ensure that all corporate resources are being used in the most effective and efficient way which may be possible in achieving objectives. Within an organization, control serves as an integrating mechanism. Controls are designed to reduce uncertainty, increase predictability, and ensure that behaviours originating in separate parts of the organization are compatible and in support of common organizational goals despite physical, psychic, and temporal distances.

There is more to control than measurement and reporting of activities. Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organizations' objectives.

#### **3.7.1 BUREAUCRATIC CONTROL**

The elements of a bureaucratic/formalized control system are to – an international budget and planning system, the functional reporting system, and policy manuals used to direct functional performance.

Budget refers to shorter term guidelines regarding investment, cash, and personnel policies, while plans refers to formalized plans with more than a one year horizon. The budget and planning process is the major control instrument in headquarters subsidiary relationships.

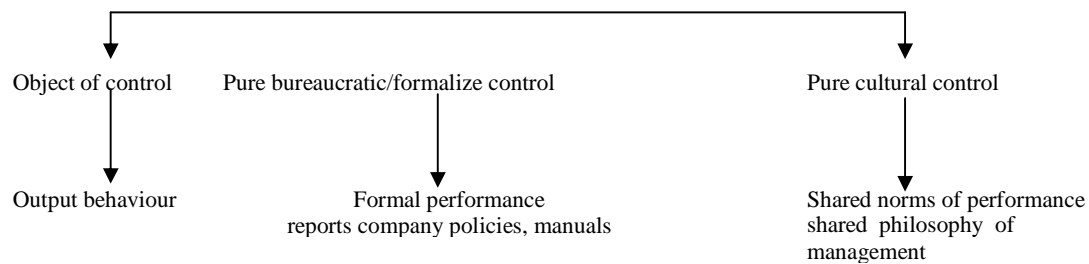
The budgeting period is typically one year, since it is tied to the accounting systems of the multinational. The budget system is used for four main purposes:

- (a) Allocation of funds among subsidiaries
- (b) Planning and, coordination of global production capacities and supplies.
- (c) Evaluating subsidiary performance and
- (d) Communication and information exchange among subsidiaries product organization and corporate headquarters, long range more qualitative and judgment in nature.

## **COMPARISON OF BUREAUCRATIC AND CULTURAL CONTROL**

### **MECHANISM**

#### **Type of control**



**3.7.2 Culture Control:** Cultural control requires an extensive socialization process to which informal extensive socialization process to which informal, personal interaction is central.

#### **SELF ASSESSMENT EXERCISE**

- Identify the major tenets to any organization who wishes to go global.

#### **4.0 CONCLUSION**

This unit has taken you round the sphere of international operations. You have studied about the nature and scope of international operations, the multinational enterprise in global economy, the conduct of international operations, growth in globalization. You have also learnt about the factors affecting the successful operations of business internationally and so on.

#### **5.0 SUMMARY**

As companies evolve from purely domestic to multinational, their organizational structure and control systems must change to reflect

new strategies. With growth comes diversity in terms of product and services, geographic markets, and people in the company itself. Bring along a set of challenges for the company. Two critical issues are basic to all of these challenges the type of organization and degree of control exercised from headquarters.

## **6.0 TUTOR MARKED ASSIGNMENT**

- Examine critically the multinational Enterprise in international operations.

## **ANSWERS TO SELF ASSESSMENT EXERCISE**

These tenets are:

- Taking advantage of trade agreements. i.e. think outside the border.
- Protect your brand at all cost.
- Maintain high ethical standard.
- Stay secure in an insecure world.
- Expect the unexpected.
- Remember that all global business is personal.

## **7.0 REFERENCES/FURTHER READING**

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# **TUTOR –MARKED ASSIGNMENT QUESTIONS AND ANSWERS**

## **MODULE 1**

### **UNIT 1 ASSIGNMENT QUESTION**

1. Discuss the roles and benefits of counter trade.

### **ANSWERS**

(1) Noted US economist Paul Samuelson was skeptical about the viability of counter trade as a marketing tool, claiming that “unless a hungry tailor happens to find an undraped farmer, who has both food and a desire for a pair of pants, neither can make a trade.” (This is called “double coincidence of wants”). But this is arguable a too simplistic interpretation of how markets operate in the real world. In any real economy, Bartering occurs all the time, even if it is not the main means to acquire goods and services.

The volume of counter trade is growing. In 1972, it was estimated that counter trade was used by business and governments in 15 countries, in 1972, 27 countries; by the start of 1990s, around 100 countries. (Vertariu 1992). A large part of counter trade has involved sales of military equipment (weaponry, vehicles and installations).



More than 80 countries nowadays regularly use or require counter trade exchange. Officials of the General Agreement on Tariffs and Trade (GATT) Organization claimed that counter trade accounts for around 5% of the world trade. The British department of trade and industry has suggested 15%.

## **UNIT 2 ASSIGNMENT QUESTION**

1. What is stand –alone service?

### **ANSWER**

Most services can be started in one of three ways:

First as a stand alone (resource hungry, as shall be discussed) Daemon; second, under, inetd; or third as an inetd service which is “TCP wrapper”-moderated.

However, some services will run using only one method. Here, we will give an example showing all three methods. Services do not have to come in union with goods. They can compete against goods and become an alternative offering. Service by themselves can satisfy needs and wants of customers. Entertainment services such as movies or music offer leisure time enjoyment. Insurance services can protect people from financial ruin in case of a calamity.

Services may also compete against one another. For example a store may have the option of providing full services to customers or of converting to the self services format. Services differ from goods most strongly in their intangibility; they are frequently consumed rather than possessed. Though the intangibility of services is a primary differentiating criterion, it is not always present. For example publishing services ultimately result in a tangible good-named, a book or a computer disk.

Another major difference concerns the storing of services. Due to their nature, services are difficult to inventory. If they are not used, the “brown around the edges “syndrome tends to result in high perish ability. Unused capacity in the form of an empty seat on an airplane for example, becomes nonsalable quickly.

### **UNIT 3 ASSIGNMENT QUESTION**

1. Distinguish between central bank and commercial bank in the following perspectives:
2. Definition

### **ANSWER**

The central bank is defined as the government bank of any country. It is the apex regulatory authority of the financial system. It supervises

all government monetary policies and also ensures its implementation. It places the needs of the country over and above its own financial interest, and acts on behalf of the government to exercise ultimate control over other banks and financial institutions of that country. Such banks are central bank of Nigeria, (CBN), South African central bank (SACB), central bank of Ghana (CBG), Swiss central bank (SCB) etc.

Commercial banks are financial institutions where money and other valuables are kept for safe custody. They are monetary institutions owned by private business or government of any country for the purpose of making profit for their shareholders. They offer retail banking services hence they borrow money from depositors and re-lend it at higher rates of interest to other persons. The commercial banks lend money to private persons, companies or firms, public corporations, the money market and the government.

#### **UNIT 4 ASSIGNMENT QUESTION**

1. List and explain the various levels of economic integration you know.

#### **ANSWERS**

##### **a. The Free Trade Area.**

The free trade zone or area is the least restrictive and loosest form of economic integration among countries. In a free trade area, all barriers to trade among member countries are removed. Therefore, goods and services are freely traded among member countries in much the same way that they flow freely between, for example, South Carolina and New York, Ghana and Nigeria etc. In most cases, rules of origin are specified within this area, to control trade of products manufactured in the area in order to prevent trade deflection or redirection of trade from a low tariff area to high tariff area in order to benefit from tariff differentials.

**e. Custom union**

This is the next stage of integration, whereby countries agree to impose a common tariff on goods coming from non-members as well as maintain a free trade amongst them. In other words, it has all the features of a free trade area and also the imposition of common tariff on goods from non-members.

**f. Common market**

The third level of integration involves a situation whereby besides the maintenance of common external tariff, and free external trade (Customs union) amongst its members, it allows for the free

movement of factors of production like labour and capital among members.

g. **The fourth** level of economic integration is the economic community as was discussed in a broader sense above.

## **MODULE 2**

### **UNIT 1 ASSIGNMENT QUESTION**

1. What do you understand by supply chain system and value.

#### **ANSWER**

Supply chain systems configure value for those that organize the networks. Value is the additional revenue over and above the costs of building the network. Co-creating value and sharing the benefits appropriately to encourage effective participation is a key challenges for any supply system.

### **UNIT 2 ASSIGNMENT QUESTION**

1. Critically examine the difference between domestic HRM and IHRM.

#### **ANSWER**

- a. Domestic HRM is done at national level and IHRM is done at international level.
- b. Domestic HRM is concerned with managing employee belonging to one nation and IHRM is concerned with managing employees belonging to many nations (Home country, host country and third country).

- c. Domestic HRM is concerned with managing limited number of HRM activities at national level and IHRM is concerned with managing additional activities such as expatriate management.
- d. Domestic HRM is less complicated due to less influence from the external environment. IHRM is very complicated as it is affected heavily by external factors such as cultural distance and institutional factors.

### **UNIT 3 ASSIGNMENT QUESTION**

1. Discuss the distinction between withholding tax jurisdiction and tax treaties.

### **ANSWERS**

Many jurisdictions require persons paying amounts to non residents to collect tax due from a non-resident with respect to certain income by withholding such tax from such payments and remitting the tax to the government. Such levies are generally referred to as withholding taxes.

### **TAX TREATIES**

These exist between many countries on a bilateral basis to prevent double taxation (taxes levied twice on the same income, profit, capital, gain, inheritance or other items). It is also known as double taxation

agreement, double tax treaties, or tax information exchange agreement. (TIEA). Most developed countries have a large number of the tax treaties, while developing countries are less well represented in the worldwide tax treaty network.

#### **UNIT 4 ASSIGNMENT QUESTION**

1. Discuss the significance of strategic planning in international business.

#### **ANSWER**

Careful planning is imperative for corporations that wish to conduct business overseas. Several well-known companies have experienced setbacks due to lack of planning. Language barriers are a common obstacle. Michael White, author of “A Short course in international marketing Blunders”, cites Tropicana’s blunder of listing its orange juice as “Jugo de China” to the Cubans living in Miami. Though “China” means orange, most Cubans took the English interpretation and were not interested in buying “Chinese” juice. As such, Tropicana lost copious amounts of money that could have otherwise been saved with planning.

#### **MODULE THREE**



## **UNIT 1 ASSIGNMENT QUESTION**

1. Explain the perspective of cultural analysis you know.

### **ANSWER**

As a discipline, cultural analysis is based on using qualitative research methods of the social sciences in particular ethnography and anthropology, to collect data on cultural phenomena; in an effort to gain new knowledge or understand through analysis of that data. This is particularly useful for understanding and mapping trends, influences, effects and affects within cultures.

There are four themes of cultural analysis:

- Adaptation and change i.e. how well a certain culture adapts to its surroundings through the use of its culture. Some examples of this are foods, tools, home, surroundings, art etc. that show how the given culture adapted.
- How culture is used to survive which also helps its members survive the environment.
- Housing; specify the ability to put the observations into a single collection, and presently it in a coherent manner.

- Expression: This focuses on studying the expressions and performance of everyday culture.

## UNIT 2 ASSIGNMENT QUESTION

1. Itemize and explain the concept of international reporting.

### ANSWER

For internal purposes, an information system should attempt to report on:

- (d) The controllable performance of a manager in the short-run.
- (e) The controllable performance of a division, or profit centre, in the longer term.
- (f) The performance of the manager and division measured against a budget or other yardstick of achievement.

Illustration: Example of a divisional performance statement based on contribution might appear as follows:

	<b>Division A</b>	<b>Division B</b>	<b>Total</b>
	N1000	N1000	N1000
Sales	80	100	180
Less: variable cost	<u>(60)</u>	<u>(50)</u>	<u>(110)</u>
contribution	20	50	70

Les: fixed cost	<u>50</u>
profits.	20

- (d) Divisional performance can be improved by increasing the sales price or volume of sales, or reducing the unit variable cost.
- (e) The relative profitability of divisions A and B could be compared by means of their C/S ratios (in this example, 20% and 50% respectively).
- (f) If there is a production limiting factor, performance could also be measured in terms of contribution per unit of limiting factor.

Unit managers will use transfer price as basis for decision making.

### **UNIT 3 ASSIGNMENT QUESTION**

1. Discuss the concept of tactical asset allocation.

### **ANSWER**

An active management portfolio strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors.

This strategy allows portfolio managers to create extra value by taking advantage of certain situations in the market place. It is a moderately

active strategy since managers return to the portfolio original strategic asset mix when desired short-term profits are achieved. Asset is a resource with value that an individual corporation or country owns or controls with the expectation that it will provide future benefit.

#### **UNIT 4 ASSIGNMENT QUESTION**

- What do you understand by the term free trade agreement?

#### **ANSWER**

A free trade agreement is a pact between two countries or areas in which they both agree to lift most or all tariffs, quotas, special fees and taxes, and other barriers to trade between the entities. The purpose of free trade agreement is to allow faster and more business between the two countries/areas, which should benefit both.

#### **MODULE FOUR**

#### **UNIT 1 ASSIGNMENT QUESTION**

- Distinguish between sight draft and time draft.

#### **ANSWER**

Draft can be classified into sight draft and time draft

- Sight Draft (with documents against acceptance) on presentation of draft to buyer. After payment to buyers bank. If draft is not honoured, goods must be returned or resold. Storage, handling and return freight expenses may be incurred. It assures shipment but not content, unless inspection or check-in is allowed before payment. A draft can be a collection of instrument used to exchange possession and title to goods for payments. Seller is essentially drawing a check against the banker account of the buyer. Buyers bank must have pre-approval or seek approval of the buyer prior to honouring the check. This is payable upon presentation of documents.
- Time draft (with documents against acceptance) on maturity of the draft before payment, after acceptance relies on buyer to honour draft upon presentation. This assures shipment but not content. Time of maturity allows for adjustments, if agreed to by the seller. Payment is based upon the acceptance of an obligation to pay the seller at a specified time. Although a time draft has more collection leverage than an invoice, it remains only a promissory note with conditions.

## **UNIT 2 ASSIGNMENT QUESTION**

- Discuss critically some of the favourable conditions to adaptation business strategy.

### **ANSWER**

There are certain circumstances which favour using an adaptation strategy for the offered product:

- When the company has a low reputation and finds itself in an unfavourable balance of power with local consumers and distributors.
- When the company has plentiful, human and productive resources available or it has local production sites or branches.
- When the product (industrial or consumer goods) is subject to local legislation and regulations within the field of grocery or medical products.
- When the conditions for using the product are different in the foreign market due to the effect of factors such as the level of expertise and education of users, the market infrastructure and technical standards

### **UNIT 3 ASSIGNMENT QUESTION**

- Critically distinguish between international research and domestic research.

### **ANSWER**

The tools and technique of international research are the same as those of domestic research. The distinction is the environment to which the tools are applied. The environment determines how well the tools, techniques, and concepts work. Although the objectives of research may be the same, the execution of international research may differ substantially from that of domestic research. The four primary reasons for this difference are environmental factors, an increase in the number of factors involved, a broad definition of competition and new parameters.

- Environmental factors when going international, a firm is exposed to an unfamiliar environment. Many of the domestic assumption on which the firm and its activities were founded may not hold true internationally. Management needs to learn the culture of the host country, understand its political systems and level of stability, and comprehend the existing differences in societal structures and language. It must in addition understand pertinent legal issues in order to avoid violating local laws.

- Other factors involved: Environmental relationship need to be relearn whenever a firm enters a new international market. The number of changing dimensions increases geometrically. Coordination of the interaction among the dimensions becomes increasingly difficult because of their sheer number. Such coordination, however, is crucial to the international success of the firm of two reasons. First, in order to exercise some central control over its international operations a firm must be able to compare results and activities across countries. Otherwise any plan made by the headquarters may be inappropriate. A major reason why managers are reluctant to engage in international research is their lack of sensitivity to differences in culture, consumer tastes and market demands. Often managers assume that their methods are both best and acceptable to all others. Also, a limited appreciation for the different environments abroad.

#### **UNIT 4 ASSIGNMENT QUESTION**

- Examine critically the multinational Enterprise in international operations.

#### **ANSWER**



This is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called Multinational Corporation (MNC) or transnational company (TNC).

Well known MNCs include fast food companies such as McDonalds and Yum Brands, vehicle manufacturers such as General Motors, Ford motors company and Toyota, Consumer electronics companies like Samsung, LG and Sonny, and energy companies such as Exxon Mobil, shell and BP. Most of the largest corporations operate in multiple national markets Areas of study within this topic include differences in legal systems, political systems, economic policy, language accounting standards, labour standards, living standards, environmental standards, local culture, corporate culture, foreign exchange market, tariffs, import and export regulations, trade agreements, climate, education and many more topics. Each of these factors requires significant changes in how individual business units operate from one country to the next.