



NATIONAL OPEN UNIVERSITY OF NIGERIA

FACULTY OF MANAGEMENT SCIENCES

COURSE CODE: BUS 835

COURSE TITLE: INTERNATIONAL BUSINESS MANAGEMENT

BUS 835
INTERNATIONAL BUSINESS MANAGEMENT

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Published by

National Open University of Nigeria

First Printed 2011

Reprinted 2023

ISBN: 978-058-968-6

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Introduction

BUS 835 - International Business management is a one semester, two credit unit course. It is available to all MBA students. The course covers such general areas as international trade, services and factors affecting international business.

This Course Guide tells you briefly what the course is about, relevant textbooks to consult and how you can work your way through these materials. It also contains some guidelines on your tutor-marked assignments.

What You Will Learn in this Course

The major aim of BUS 835 is to introduce you to the field of international business.

In these days of unemployment, you will learn how to go international with your business. Factors that will affect you while going international like socio-cultural, political, physical, legal and labour forces will be discussed. You will equally learn that, in an international business, there is a difference in the accounting system. Before going international, there is the need for research as international services are becoming important worldwide.

Course Aims

The course aims to give you a broad idea of what international business is, the why and how of international business, the forces that affect international business and the knowledge of all those international and local organisations that assist in international business.

This will be achieved in the following ways.

- Introducing you to international business
- Discussing the forces that shape international business
- Demonstrating how you can be engaged in marketing internationally

Explaining the role of research in international business

Explaining the new trends in international services

- Discussing international and local organisations that assist international business
 - Discussing current methods of recruiting workers for international business.

Course Objectives

In order to achieve the aims set out above, the course sets overall objectives. You will also realise that each course unit objectives is always included at the beginning of each unit.

It is advisable to read through the specific objectives before studying the unit.

The following are the broad objectives of the course. By striving to meet these objectives, you would have achieved the aims of the course as a whole.

On successful completion of the course, you should be able to:

- explain the background history of international business
- discuss various international trade theories
- discuss various ways of going into international business
- discuss the financial influence on international business
- discuss international business environment i.e. physical, socio-cultural, political, legal, labour and competitive forces
- explain the role of international organisations on international business
- list the roles of Nigerian organisations on international business
- explain how international business research is carried out
- discuss the ways and methods of international marketing
- explain the export and import practices
- analyse the human resources management in international business
- explain how accounting taxation affects international business
- explain the processes of international service business
- explain how international business product policy decisions are taken.

Working through this Course

It will be very essential that you thoroughly read the study units, consult the suggested texts and other relevant materials at your disposal. Most of the units contain Self Assignment Exercises and Tutor-Marked Assignments, which will be assessed by your tutor.

Course Materials

Major components of the course are:

1. Course Guide
2. Study Units
3. Assignment File
4. Presentation Schedule

Study Units

There are 15-study units in this course, they are as follows.

Module 1

| | |
|--------|--|
| Unit 1 | Introduction to International Business Management |
| Unit 2 | International Trade |
| Unit 3 | Why and How? International Business Management |
| Unit 4 | Financial Influence on International Business Management |
| Unit 5 | International Business Environment (I) |

Module 2

| | |
|--------|--|
| Unit 1 | International Business Environment (II) |
| Unit 2 | International Organisation and International Business Management |
| Unit 3 | International Business Research |
| Unit 4 | International Marketing |
| Unit 5 | Export and Import Practices (American Example) |

Module 3

| | |
|--------|--|
| Unit 1 | Human Resources Management and International Business Management |
| Unit 2 | International Accounting and Taxation |
| Unit 3 | International Services |
| Unit 4 | Product Policy Decision in an International Business Management |
| Unit 5 | Nigerian Organisations and International Business Management |

Textbooks and References

There is no compulsory book for the course. However, you are encouraged to consult some of those listed for further reading at the end of each unit.

Assignment File

The assignment file will be made available to you. You will find all the details of the work you must submit to your tutor for marks. The marks you obtain for this assignment will count towards the final mark you will obtain for this course. Any further information on assignment will be found in the assignment file.

Assessment

Your performance in this course will be based on two major approaches. First is the Tutor-Marked Assignments (TMAs). The second method is through a written examination.

Tutor-Marked Assignments (TMAs)

With respect to TMAs, you are expected to apply the information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the laid down rules. The total score obtained in the TMAs will account for 30% of your overall course marks.

There are many TMAs in the course. You should submit any four to your tutor for assessment. The highest three of the four assessments will be counted and these will be credited to your overall course marks.

Final Examination and Grading

At the end of the course, you will need to sit for a final written examination of three hours duration. This examination will also count for 70% of your overall course marks. The examination will consist of questions, which reflect the types of self-testing, practice exercise and TMAs you have previously encountered. You are advised to prepare adequately for the examination; since the general broad area of the course will be assessed.

Course Marking Scheme

The following table lays out how the actual course marking is broken down:

| Assessment | Marks |
|----------------------------|---|
| Four assignments submitted | Best 3 of the four count @ 10% each = 30% of course marks |
| Final examination | 70% of overall course marks |
| Total | 100% of course marks |

How to Get the Most from this Course

The distance learning system of education, as you will understand, is quite different from the traditional university system. Here, the study units replace the university lecturer, thus conferring a unique advantage on you. For instance, you can read and work through specially designed study materials at your own pace, and at a time and place that suit you best. Hence, instead of listening to a lecturer, all you need do is reading.

You should understand right from the on-set that the contents of the course are to be worked at and understood step by step, and not to be read like a novel. The best way is to read a unit quickly in order to see the general run of the content and then to re-read it carefully, making sure that the content is understood step by step. You should be prepared at this stage to spend useful time with your reading.

Facilitators/Tutors and Tutorials

You are provided with detailed information about the number of tutorial contact hours to support this course, which will be communicated to you. You will also 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 to a tutorial group. Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter, and provide assistance to you during the course.

Please do not hesitate to contact your tutor by telephone or e-mail if you need help. The following might be circumstances in which you would find help necessary:

- if you do not understand any part of the study units. if you have difficulty with the self-test or exercises
- if you have a question or problem with an assignment or with the grading of an assignment.

You should endeavour to attend tutorial classes which will be provided for you and other students, since this is the only opportunity at your disposal to experience a physical and personal contact with your tutor and to ask questions, which are promptly answered. Before attending tutorial classes, you are advised to thoroughly go through the study units and then prepare a question list. This will afford you the opportunity of participating very actively in the discussions.

Summary

The course, international Business Management, is prepared to give you a broad idea of what international business is all about, the intricacies in terms of why and how of international business operations, the forces or factors that affect international business dealings and the knowledge of all those operations of international and local business entities such as the multinational corporations (MNCs) and other organisations that engage in international business as well those that assist in the functioning of international business activities.

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Course Title International Business Management

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ISBN: 978-058-968-6

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Printed by:

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MODULE 1

- Unit 1 Introduction to International Business Management
- Unit 2 International Trade
- Unit 3 Why and How? International Business Management
- Unit 4 Financial Influence on International Business Management
- Unit 5 International Business Environment (I)

Unit 1 Introduction to International Business Management

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Nature of International Business
 - 1.3.1 Basics of International Business Management
 - 1.3.2 Need for International Business Management
 - 1.3.3 History of International Business Management
- 1.4 Differences in International Business Management
 - 1.4.1 Forces in Environment
 - 1.4.2 Domestic Environments
 - 1.4.3 Foreign Environment
 - 1.4.4 International Environment
 - 1.4.5 Decision Making More Complex
- 1.5 Globalisation
- 1.6 Summary
- 1.7 References/Further Readings/Further Resources
- 1.8 Possible Answers to Self-Assessment Exercise(s)

1.1 INTRODUCTION

If you engage in doing business between two countries, you are into international business and you have to take appropriate measures to ensure its effective management. A lot of students are always confused as to what international business is.

The belief that doing business between an African nation (say, Nigeria) and a European country (Britain) is what we only refer to as international business is not correct. However, you should know that Business between Nigeria and Ghana in the African content, for instance, is an international business. So, international business is business between one country and another country or countries. There are so many reasons why countries are involved in business and various factors affect their activities. This unit examines international business and its environment in terms of factors or forces that shape such type of business.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- explain international business management
- discuss reasons for international business management
- analyse the origin of international business management
- evaluate the forces in business environment and international environment
- explain decision making process in international business management.



1.3 NATURE OF INTERNATIONAL BUSINESS

1.3.1 What is International Business?

You should understand from the introduction that international business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies and organisations as well as countries.

Czinkota et al (2002) says international business could be and is always interrelated; it involves export and import trade or direct foreign investment. International business could take the form of owning a subsidiary company fully, joint ventures, licensing, and franchising or management contract.

Hence, you will appreciate that definition of international business borders on two issues, namely:

- i. National boundaries
- ii. Transactions

Transfer learnings implies to you that nations have borders; it therefore means that transacting business across borders is an international business, whether the business is among nations in the same region or across two different regions (Subedi, 2022). *Then, how you ever thought of why individuals, business entities, and even nations engage in business transactions across international boundaries?*

1.3.2 Need for International Business

You can understand that international business as a course of study is necessary for students of business management and others because every businessman needs to take advantage of the following:

- a) you need international experience to equally manage your business at home, because the whole world is now a global village.
- b) the chief executive officers and managing directors need courses in international business to cope with human resources management.
- c) international business is needed for managers to become familiar with other markets, culture and customs of other business markets.
- d) it will equally increase the involvement of the firm in international business, thus its procedures and practices need to be studied.

But how has the international business started to be considered as a necessary course of study?

1.3.3 History of International Business

Ball et al (2002), believe that international business as a discipline is relatively new but international business practice is not. It is believed that international business practice started before Christ. Phoenician and Greek merchants used to send their representatives abroad to sell their goods. In 1600, British East India Company had established branches in Asia; within this same period, American traders were involved in international trade in Asia. Dutch companies later joined British East Company at the same period and were involved in international business.

In 1868, Singer sewing machine built its foreign factory in Scotland and its branches grew in other countries. J and P Coats (UK) and Ford followed suit with companies in other foreign countries; since then foreign businesses started springing up. In Nigeria, foreign business can be traced to the period of slave trade. However, Europeans traded in Nigeria with their business even before independence. Some of the noticeable companies that were present in Nigeria in early 1970s include UAC, John Holt and host of others. Today, Nigeria too has established business in other foreign countries.

SELF-ASSESSMENT EXERCISES 1

- | |
|---|
| <ul style="list-style-type: none"> 1. Name any five (5) foreign businesses in Nigeria. 2. Name any (5) five Nigerian businesses abroad. |
|---|

1.4 Differences in International Business

You can appreciate that international business and domestic business operations differ for the fact that international business has some three forces to contend with once it operates outside the shores of its country. They include:

- i) domestic
- ii) foreign
- iii) International

While domestic business contends only majorly with domestic issues, you can understand that sometimes faces foreign or external business issues. The international business environments are critically examined below.

1.4.1 Forces in Business Environment

Environment could be classified into two, i.e. internal and external environment or controllable and uncontrollable environment, Ball et al (2002), reported that environment is the sum of all forces surrounding and influencing life and development of the firm. The external environment is composed of these elements.

- i. Competition
- ii. Distribution
- iii. Economy
- iv. Socio economic
- v. Financial
- vi. Legal
- vii. Physical
- viii. Political
- ix. Socio cultural
- x. Labour and
- xi. Technology.

As you have earlier been made to understand, the controllable factors as observed by Ball et al (2002) are elements over which management do have some control, such as factors of production (capital, raw materials, and people) and the activities of the organisation (personnel, finance, production and marketing).

1.4.2 Domestic Environment

You can appreciate that this comprises of uncontrollable forces that have their roots in the home country and these influence the cycle and development of the firm. For instance, you know that Nigeria could be suffering from shortage of foreign currency flow. It is possible that Nigerian government will place a restriction on overseas investments to reduce inflow.

1.4.3 The Foreign Environment

As you can understand, this environment is the not the same with that of the above in (1.4.2); the difference is that the foreign environment is emanating from what obtains in the foreign countries. Hence, they operate differently for several reasons which include:

a) **Different force values**

Some forces may look identical in the two environments yet they may be opposed to each other.

b) **Change difficult to assess**

Forces like political and legal forces are difficult to assess. Some laws may be passed to appease a section of the population.

c) **Forces interrelated**

All forces are interrelated. An example could be the combination of high cost capital and abundance of unskilled labour in many developing countries which may lead to the use of a lower level of technology than would be employed in the more industrialised nations.

SELF ASSESSMENT EXERCISE 2

Enumerate five factors each from domestic and foreign environment that affect international business.

1.4.4 International Environment

You can appreciate the fact that some factors confronting business operations can be internationalized in nature. Ball et al (2002) opined that international environment is the interactions:

- i) between the domestic environmental forces and the foreign environmental forces
- ii) between the foreign environmental forces of two countries where an affiliate in one country does business with customers in another.

1.4.5 Decision-Making More Complex

You should understand that no doubt a decision involving business that is international is more complex than business that is domestic. A good example is that if management accepts a salary increase demand in a subsidiary, it is possible because of change of information idea, another subsidiary will demand for increase equally.

1.5 Globalisation

It is important for you to know that it is believed that it is difficult to come to agreement as to what actually is globalisation. In fact, it is interesting in the sense that every day on television shows, internet chat rooms, practical demonstrations, parliaments, management boardrooms and labour union meetings, people discuss globalisation; the definition that is acceptable is elusive. Social scientists discuss globalisation according to area of interest i.e. political globalisation, technological globalisation etc. All the same, politics, society, environment, history, geography, and culture have some implications in globalisation.

As you can appreciate from earlier discussion that Ball et al (2002) has ideas for globalisation, which they believe that it is there are aspect of economic globalisation, the international integration of goods, technology, labour, and capital; that is, firms implement global strategies. All these the management of firms link and coordinate their international activities on a worldwide basis (Yalcin, 2018).

You can appreciate that globalisation is characterized by some forces. Such forces can be categorized into five major kinds of elements and they include:

i. Politics

It is a trend toward the unification and socialisation of the global community.

ii. Technology

Advances in computers and communications technology have permitted increased flow of ideas and information across borders, enabling customers to learn about foreign goods.

iii. Markets

As companies globalise, they also become global customers. Example could be seen in Nigerian banking industry, Zenith Bank, First Bank, Intercontinental Bank, have gone global with global customers.

iv. Cost

Economics of scale which seek to reduce costs are always a management goal; you could achieve this through global product lines so as to reduce development, production and investing costs.

v. Competitiveness

Competition in the international market is keener than home markets, because of diverse products/services and as well as different marketing strategies in entering international market.

SELF-ASSESSMENT EXERCISE 3

Identify any five (5) effects of globalisation on Nigerian economy.



1.6 Summary

This unit has discussed both international business and global business, which have some characteristics in common, yet they are different. You have appreciated that the international business is affected by some factors such as domestic, foreign and international variables, while domestic business is affected only by domestic variables. In essence, you have learned that international business studies are essential for managers and stakeholders in the international environment because the knowledge is necessary for taking decisions for competition, efficient and effective management.



1.7 References/Further Readings/Web Resources

Ball, A D, Wendell, *et al* (2002). *International Business: The Challenge of Global Competition*, (8th ed.). McGraw-Hill Irwin.

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https://www.researchgate.net/publication/329487447_International_Business_and_Trade



1.8 Possible Answers to SAEs

Answers to SAE I

1. Five (5) foreign businesses in Nigeria include:
a) Shoprite b) DSTV c) MTN d) GOTV. e) ELF oil company.
2. Five (5) Nigerian businesses abroad include:
a) Dangote b) UBA Plc. c) Access Bank Plc. d) First Bank Plc.
e) Union Bank Plc.

Answer to SAE 2

Five factors in domestic environment affecting international business include: i) Insecurity, b) Politics, c) Monetary policies, d) Foreign Exchange policies, e) Tax Policies.

Five factors in foreign environment affecting international business include:

- i) Different Currencies;
- ii) Cultural differences;
- iii) Politics and government;
- iv) Strives and wars, Exchange Rates; and
- v) Monetary policies.

Answer to SAE 3

Five (5) effects of globalisation on Nigerian economy include:

- i) Dumping of goods;
- ii) Collapse of domestic industries;
- iii) High level of unemployment & Social unrest among the youth;
- iv) Stunted economic progress; and
- v) Negative impact on domestic production.

UNIT 2 INTERNATIONAL TRADE

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Nature of International Trade
 - 1.3.1 Meaning of International Trade
 - 1.4 International Trade Theories
 - 1.4.1 Mercantilism
 - 1.4.2 Theories of Absolute Advantage
 - 1.4.3 Hecksler Ohlin Theory of Factor Endowment
 - 1.4.4 Gravity Model
 - 1.5 Regulation of International Trade
 - 1.5.1 International Product Life Cycle
 - 1.5.2 Newer Explanation for the Direction of Trade
- 1.6 Summary
- 1/7 References/Further Reading
- 1.8 Possible Answers to SAEs



1.1 Introduction

You do know that a term can have various definitions. This scenario also applies to the term international trade. For instance, international trade as defined by *Oxford Advanced Learners Dictionary*

has various definitions, among which are espoused below:

(a) Noun

You have the following definitions in terms of regarding international trade as a noun:

1. The activity of buying and selling or of exchanging goods or services among people or countries.
2. A particular type of business.
3. A particular area of business and the people or companies that are connected with it.
4. The amount of goods or services that you sell.
5. A job, especially one that involved working with your hands and that requires special training and skills.

(b) Verb

You have the following definitions in terms of regarding international trade as a verb.

1. To buy and sell things.
2. To exist and operate as a business or company.
3. To be bought and sold or to buy and sell something.
4. To exchange something that you have for something that somebody else has.

However, trade could compose of almost all of the above. But the first definition fits our purpose. When international is added to it, it becomes the stated activity in definition noun (a) that cuts across boundaries.

Let us consider this poser. *Is there any difference between business and trade?* As we progress along, you should be able to provide correct answer to the question.

You can understand that business trade can have various stages of development which also implies that it is characterized by some principles. For instance, mercantilism, absolute advantage, environment factors have some impact on business transactions.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- analyze international trade
- discuss various theories of trade
- explain international product life cycle.

1.3 Nature of International Trade

1.3.1 Meaning of International Trade

You have the inkling that any term relating to international implies foreign or across international boundary. Hence, international trade regarding Nigeria includes exports and imports. In 1990, some achievements were made; international trade on goods and services were measured in dollars which surpassed \$4 million. After the year, it reached \$6.8 billion. Since then the world trade has been increasing.

In Nigeria, you do know that we have been witnessing trade deficits mostly because we have been importing refined fuel from other countries. Therefore, international trade is the exchange of goods and services across international boundaries or territories. But does international trade have positive impact on other economies or country?

In most countries, it represents a significant share of gross domestic product. International trades as seen presently, although based on historical records, in economic and political importance, have been in the rise in recent times. Industrialisation, advanced transportation, globalisation, multinational corporations and outsourcing are all having a major impact on the international trade. International trade is crucial to the continuance of globalisation. International trade is a major source of economic revenue for any nation that is considered a world super power. Without international trade, nations would be limited to the goods and services produced within their own borders (Yalcin, 2018).

International trade is also a branch of economics which together with international finance form the longer branch of international economy.

SELF ASSESSMENT EXERCISE 1

- | |
|---|
| 1. Give five (5) reasons why nations engage in international trade. |
|---|

2. Give five (5) commodities being imported by Nigeria from other countries.

1.4 International Trade Theories

You should consider this question: Why do nation's trade? Ball et al (2002) attempt this question and they equally provide important proposition of predicting the direction, composition and volume of goods traded which are what international trade theories attempt to address. Interestingly as the case with numerous economic postulations or theories, the first formulation of international trade theories were politically motivated. Adam Smith, incensed by government intervention and control over the domestic and foreign trades, published an inquiry which examined the nature and causes of the wealth of nations, in which he tried to destroy the mercantilist philosophy (Dibiku, 2017).

International trade theory addresses the following.

Mercantilism

Theory of absolute advantage

Theory of comparative advantage

Hecksler-Ohlin theory of factor-environment-factor.

Gravity model, e.t.c.

1.4.1 Mercantilism

This is an economic philosophy based on the belief that:

a nation's wealth depends on accumulated treasure usually gold, and

to increase wealth, government policies should promote exports and discourage imports

You can appreciate the fact that Mercantilism is an era in relation to foreign trade. Mercantilism subsisted over a period of time in the earlier stage of foreign trade, and its era ended in the late 1700s but its arguments live on. Nations are encouraged to increase their exports and limit imports (Dibiku, 2017). As you can appreciate, there existed some magnate of such trade called mercantilists. Mercantilists were able to achieve this through more export and less import. Surpluses were left to be used to replace imports of precious stones like gold. For example, since England had no gold mine, the only solution was to import. Modern day mercantilism is called economic nationalism. What is happening is that nations and their industries should benefit from their economies i.e. industries and banks should be able to use the power of the state as both:

stockholder and financier and

customer and marketer, to revitalise the nation's economic base. One may be tempted to say Nigeria is into modern day mercantilism.

1.4.2 Theory of Absolute Advantage

Ball et al (2002) reported Adam Smith as claiming that market forces should determine the direction, volume and composition of international trade. Adam Smith argued that under free unregulated trade, each nation should specialise in producing those goods it could produce most efficiently (had an absolute advantages), either natural or acquired.

Some of these goods would be exported to pay for imports of goods that could be produced more efficiently elsewhere (Dibiku, 2017). Smith showed by his example of absolute advantage that both nations would gain from trade. Below is an example of Nigeria and Ghana that produce rice and cocoa.

Table 1

| Commodity | Nigeria | Ghana | Total |
|-----------|---------|-------|-------|
| Rice | 3 | 1 | 4 |
| Cocoa | 2 | 4 | 6 |

Without looking at comparative advantage, each country can produce the quantity of rice and cocoa shown in the table above. If each country is to specialise in production of what it can produce more by channeling its production capacity, the production will increase to what is shown below.

You can understand from the above explanation that each country will specialise in production of respective commodities as shown below:

Table 2

| Commodity | Nig | Ghana | Total |
|-----------|-----|-------|-------|
| Rice | 6 | 0 | 6 |
| Cocoa | 0 | 8 | 8 |

As you can expect, from the table above, since the resources are geared towards production of rice or cocoa, the output increases from 4 to 6 for rice and 6 to 8 for cocoa.

1.4.3 Heckscher-Ohlin Model

The Heckscher Ohlin model was produced as an alternative to the Ricadian model of basic comparative advantage. Despite its greater complexity, it did not prove much more accurate in its predictions. However, from a theoretical point of view, it did provide an elegant solution by incorporating the neoclassical price mechanism into international trade theory (Dibiku, 2017).

The theory argues that the pattern of international trade is determined by difference in factor endowments. It predicts that countries will export those goods that make intensive use of factors that are locally scarce. Empirical problems with the HO model, known as the Leontief paradox, were exposed in empirical tests by Wassily Leontief who found out that the United States tended to export labour-intensive goods despite having a capital abundance.

SELF-ASSESSMENT EXERCISE 2

List five products in which you feel Nigeria can have comparative advantage over Ghana.

1.4.4 Gravity Model

As you can understand, there are other views regarding how international trade has evolved based on other writers' views.

The gravity model of trade presents a more empirical analysis of trading patterns rather than the more theoretical models discussed above. The gravity model, in its basic form, predicts trade based on the distance between countries and the interaction of the countries' economic sizes. The model mimics the Newtonian law of gravity which also considered distance and physical size between two objects. The model has been proven to be empirically strong through econometric analysis of other factors such as income level, diplomatic relationships between countries. Trade policies are also included in expanded version of the model (Dibiku, 2017).

1.5 Regulation of International Trade

Bilateral treaties were used as a regulating mechanism between two nations. High tariffs become another method during the period of mercantilism. Free trade becomes main regulatory method of international trade in the 1990s. General agreement on trade treaties (GATT) and world trade organisations are basically the method of regulating international trade world-wide. This has caused problems between nations, sometimes leading to dissatisfaction and discontent among nations. Most nations that are economically powerful support free trade. However, they go into what is called protectionism where some goods/industries are of utmost importance to them. Some years ago, Netherlands and the UK supported free trade but today, the USA, Australia, Japan and even the UK are the greatest proponents of free trade. Countries like India, China and Russia are strong advocates of free trade today, because they are dominating the world economy. As tariff

levels fall, there is also an increasing willingness to negotiate non-tariff measures including foreign direct investment procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures (Shukla, 2000).

Agricultural products are mostly in favour of free trade, while manufacturing sector prefers protectionism. This system is changing in recent times; agricultural products produced by some countries were classified under international trade treaties which allow for more protectionist measure.

During Depression, domestic economy tries to favour increased tariff. World trade organisation is directly the organ that is used in regulating the international trade.

1.5.1 International Product Life Cycle

The international product life cycle, is related to product life cycle. The International Product Life Cycle (IPLC) passes through four stages, for instance, in America (Czinkota, 2007).

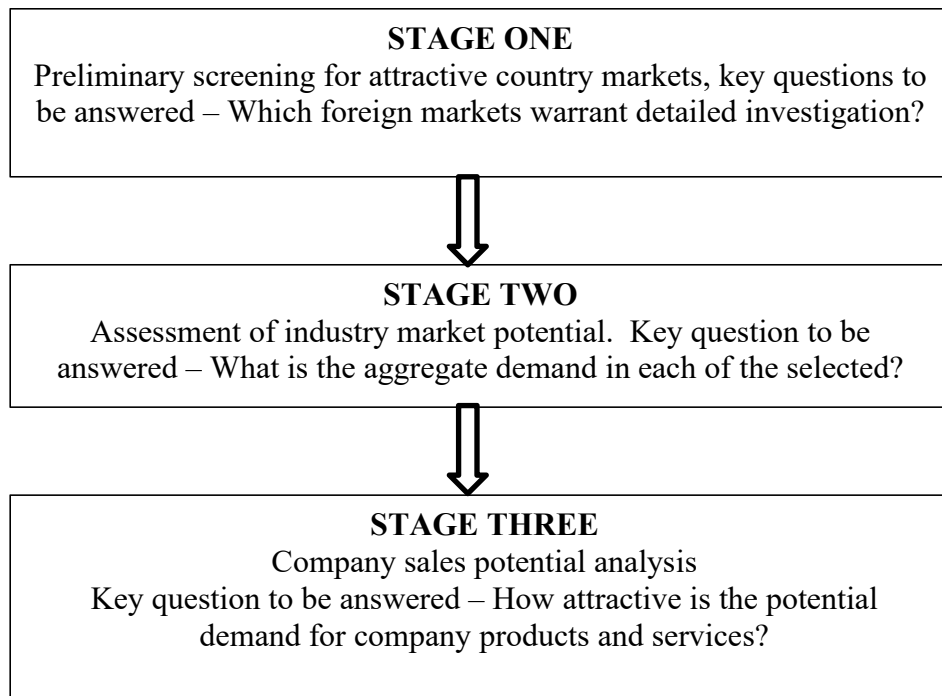


Fig. 1: A sequential process of researching foreign market potentials

Adopted From: Czinkota, M. R. (2007). *International Business*. Amazon Books.

The four stages include:

1. United States Exports

It is believed that the US has the largest population of high income consumers in the world; competition for their patronage is high. Manufactures look for ways of satisfying their consumers, because of this, they invest in research and development. Consequently, the design and the production methods are up to date always. In essence, America has the highest number of new products because of the above factors, hence export market develops (Czinkota, 2007).

2. Foreign Production Regions

(Czinkota, 2007) opined that overseas consumers especially those in the developed nations, have similar needs and the ability to purchase end products. Export volume grows and becomes large enough to support production. He further stressed that if the innovator is a multinational firm, it will be sending its subsidiaries new product information with complete details on how to produce it. If the company has no affiliate foreign business people, as other countries learn about the production of these products, they will obtain licence for its production, foreign production begins. The America firm will still be exporting to those markets where there is no production, but its export growth will diminish.

3. Foreign Competition in Exports

Foreign firms are gaining experience. In marketing and production, the cost of production will fall. Because their market is getting saturated, they look for buyers elsewhere. If there is an advantage in labour or raw materials cost, they will under sell the parent company's products. At this level foreign firms are competing in export market, because of this American export, sales will continue to decline (Czinkota, 2007).

4. Import Competition in the United States

According to Czinkota (2007), if domestic and exports sales enable foreign producers to attain the economies of scale enjoyed by the American firms, they may reach a point where they can compete in quality and undersell American firms in the American market e.g. the US market is serviced by imports only.

1.5.2 Latest Explanations on the Direction of Trade

1. Economies of Scale and the Experience Curve

As production increases the cost of production lowers and as the companies gain experience in production the cost of production equally continues to go down. Economies of scales and the experience curve affect international trade because they permit a nation's industries to become low-cost producers without gaining much advantage of production factors (Kim, 2021).

2. First Mover Theory

Some management theories argued that the firm that enters the market first (first movers) will soon dominate it. New research however indicates that previous studies were flawed because they were based on surveys of few firms and did not include a large numbers of the true pioneers.

3. The Linder Theory of Overlapping Demand

The Linder Theory says that international trade in manufactured goods will be greater between nations with similar levels of per capita income than between those with dissimilar levels of per capita income.

SELF ASSESSMENT EXERCISE 3

International trade is considered by the developing nations as exploitation of the advanced nations. Give reasons for such view.



1.6 Summary

You have been exposed to the nature of international trade as being the buying and selling of goods and or services between two or more countries. It also includes bilateral agreements among nations. The relationship of one country with another is examined from the international trade theories. The belief in Mercantilism is that a nation's wealth depends on accumulated treasures usually gold and a nation must continually strive to increase its wealth, while under the absolute advantage, it is believed that a country should produce goods in which it has better advantage over other products.

While Heckscher-Ohlin model believes that international trade is restricted by tariff and non-tariff factors, international trade equally has a life cycle which is similar to a product life cycle.



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1.8 Possible Answers to SAEs

Answer to SAE 1

a) Five (5) reasons why nations engage in international trade:

- i) To get the products that they do not produce;
- ii) It enhances availability of variety of products;
- iii) Fosters availability of new technology;
- iv) Enhance economic growth and development; and
- v) To create harmonious relationship;

b) Five (5) commodities being imported by Nigeria from other countries include:

- i) Crude oil
- ii) Gas
- iii) Cocoa
- iv) Cassava
- v) Hides & skins

Answer to SAE 2

Five products in which Nigeria can have comparative advantage over Ghana:

- i) Crude oil
- ii) Gas
- iii) Cocoa
- iv) Cassava
- v) Hides & skins

Answer to SAE 3

Five reasons why international trade is considered by the developing nations as exploitation by the advanced nations: i) Dumping of goods;

- ii) They have advanced technology;
- iii) Dictates the terms of trade;
- iv) Controls foreign trade regulations; and
- v) Efficient production compared to developing countries.

UNIT 3 WHY AND HOW OF INTERNATIONAL BUSINESS

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Why International Business?
 - 1.3.1 Increasing Profits and Sales
 - 1.3.2 Protecting Markets, Profits and Sales
- 1.4 How of International Business
 - 1.4.1 Exporting
 - 1.4.2 Indirect Exporting
 - 1.4.3 Direct Exporting
- 1.5 Foreign Manufacturing
 - 1.5.1 Wholly-Owned Subsidiary
 - 1.5.2 Joint Venture
 - 1.5.3 Licensing Agreement
 - 1.5.4 Franchising
 - 1.5.5 Contract Manufacturing
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercise(s)



1.1 Introduction

A pertinent question you should ask yourself herein is this: why does a firm need to go overseas in search of business operations when it is doing very well in business at its own home country? This is the question that this unit will attempt to answer. From your simple understanding of international business, a firm will want to go abroad for business because of so many reasons among which are to expand one's business, to see new ways of doing business etc. If we all agree that there is need to go abroad for business operations, how do the firms go about it? In this regard, a firm can start by exporting goods go into manufacturing or buying a company abroad or connecting with others for franchise arrangement.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss reasons for firms going abroad for business operations
- Analyze various ways of doing business abroad by firms.



1.3 Why International Business

Going international shows that you want to:

increase profits and sales of your company

protect markets and sales and for political reasons.

Ways of Going International include the following:

- (i) Exporting goods;
- (ii) Foreign manufacturing;
- (iii) Wholly owned subsidiary;
- (iv) Joint venture
- (v) License agreement

- (vi) Franchising

- (vii) Contract manufacturing

1.3.1 Increasing Profits and Sales of Your Company

You can understand that managers in any company or firm are in charge decisions including decisions to go abroad for business operations. A lot of managers are under pressure to increase their company's sales and profits. Because of this, they continue to search for new markets. They look for markets with growth in GDP and population or an economy with high growth rate but which business is not growing at the same rate (Czinkota, 2007).

In increasing your company's profit and sales you must be able to:

- i) create new market- This is created where the GDP per capital is increasing;
- ii) identify where there are preferential trading arrangements;

- vi) seek an agreement with a small group of nations to establish free trade among them while maintaining with restriction with all other nations. ECOWAS is a good example;
- iv) create a faster growing market- This is another way of increasing profit and sales. Because of the fast growing marketing, local companies may be willing to invest there to improve on the profit, example is Liberia.
- v) improve communication - It is a supporting reason for opening up new markets overseas because certainly the ability to communicate rapidly and less cost with customers and subordinates by electronic mail and video conferencing has given managers confidence in their ability to control or influence foreign operations.

You can understand from transfer learning that improving on profits is by obtaining greater revenues. To obtain greater revenues, you need to simultaneously introduce products into foreign markets and as well as domestic markets and also to enhance the globalisation of their operations. In addition to going international, is to reduce costs of goods sold and higher overseas profits as an investment motive.

Test marketing is another way of increasing profit because test marketing a product in a foreign location is less important to the company than its home market and major overseas markets (Czinkota, 2007).

SELF ASSESSMENT EXERCISE 1

Give five (5) reasons for regarding profits as a motivator for international business/trade.

1.3.2 Protecting Markets, Profits and Sales

From transfer learning, you would agree that some of the pertinent reasons for going international are to:

protect domestic market- By this, the company monitors its customers abroad. A company that has its customers scattered around the globe should go international in order to protect such markets and the long-term effect is that it protects both the profits and sales.

1. protect foreign market- This implies that the company critically examines the economic activities, whereby in the domestic market, there are:

- a) Less/Lack of foreign exchange
- b) Local production by competitors
- c) Down stream markets- like NNPC building mega stations.
- d) Protectionism- erecting import barriers to reduce competition.

2. Protecting company's profits, sales and markets, this could be achieved by:

- guaranteeing supply of raw material
- acquiring technology and management know-how
- geographic diversification
- satisfying management desire for expansion.

SELF ASSESSMENT EXERCISE 2

List factors that you consider could influence a Nigerian manufacturer to relocate abroad while there are existing customers at home.

1.4 How of International Trade

Having known why businesses go international, you may now ask yourself whether a company could suddenly wake up one day and start selling abroad. No; there are varieties of ways by which a

company could enter into foreign markets. Such decision involves considering many options before embarking on it (Czinkota, 2007). Such options include:

1.4.1 Exporting

This is a method of selling regular products abroad. It requires little investment and the risk is less. Exporting could be direct or indirect.

1.4.2 Indirect Exporting

Ball et al 2002 observe that indirect exporting requires neither special expertise nor large cash out-lays. However, you may employ the services of the following.

- i) **Manufacturers export agents** - They sell for various manufacturers.
- a) **Export commission agents** - They buy for their customers overseas.
- b) **Export merchants** - They purchase and sell on their own accounts.
- c) **International firms** - They specialise in international business activities.

1.4.3 Direct Exporting

Direct exportation of goods and services by the firm that produces the goods: Management normally sets up a sales company. Dangote in Nigeria can set up Dangote distributing outlets in Ghana and its goods are distributed through that outlet.

1.5 Foreign Manufacturing

For companies that decide on foreign manufacturing, five methods are open for them to choose from: they include, wholly owned subsidiary, joint venture, licensing agreement, franchising and contract manufacturing (Czinkota, 2007).

1.5.1 Wholly Owned Subsidiary

A company that wants to start international business through this can explore ways such as:

- a) acquire a going concern (existing business)
- b) start afresh by building a new plant
- c) purchase new distribution networks.

In the past dispensation, some foreign companies came to Nigeria and acquired some going concerns such as Ajaokuta Steel Company, former NITEL, Oku Iboku Paper Mill, and Sheraton Hotel, Abuja, among others.

1.5.2 Joint Venture

This is a cooperative effort between two or more organisations that share common interests in a business enterprise or undertaking (Czinkota, 2007). A joint venture could be in any of the following ways.

- (i) A corporate entity formed by an international company and local owners.
- (ii) A corporate entity formed by two international companies for the purpose of doing business in a third market.
 - (iii) A corporate entity formed by a government agency (usually in the control of investment) and an international firm.
- (iv) A corporate undertaking between two or more firms of a limited duration.

Some basic advantages of joint venture are that it creates:

- (i) strong passion for the company.
- (ii) expertise on tax and other benefits are acquired. Disadvantages of this type of business are that:
 - (i) Profit is shared.
 - (ii) Lack of control over joint venture.
 - (iii) Government laws do affect this type of business; for instance, the Indigenisation Decree of 1972 is a good example in Nigeria.

SELF ASSESSMENT EXERCISE 3

Identify five companies in Nigeria that are joint ventures.

1.5.3 Licensing Agreement

Licensing agreement is a contractual agreement in which one firm grants access to its patent, trade secrets, or technology to another for a fee. The definition states that it is an agreement between one firm (the licensor) who grants to another firm (the licensee) the right to use any kind of expertise, such as manufacturing procedures and trade markets for one or more of the licensor's products (Czinkota, 2007). Examples are Hyundai Electronics and Sensory Electronics granting license to Texas Instrument for a fee of one billion dollars.

1.5.4 Franchising

Ball et al (2002) define it as a form of licensing in which one firm contracts another to operate a certain type of business under an established name according to specific rules. Franchising permits the franchisee to sell products or services under a highly published brand name and a clearly given set of procedures with a carefully developed and controlled strategy.

In the area of soft drinks, Coca Cola had such an agreement with a company that sells Canada Dry.

1.5.5 Contract Manufacturing

This is an arrangement in which one firm enters contract with another to produce products to its specification but assumes responsibility for marketing (Czinkota, 2007).

Contract manufacturing could be in two ways.

- (i) Strategy of entering a foreign market without investing in plant facilities. A company may ask another company to produce for it products according to its specification i.e. Former Bata (known as FERMAD) company produces school shoes for some other company to sell.
- (ii) The second method is to sub contract assembly production or production of some parts to independent companies overseas, e.g., Peugeot Automobile of Nigeria (PAN), Kaduna.



1.6 Summary

In this unit, you have taken through the how and why of international business. Hence, you are now aware that international business has its how and why. The why of it is based purely on protecting their market, sales and profit; and maybe other reasons. However, you have known that the how is classified into five distinct areas such as the various options involved in going international by a business entity. In fact, a company can go international as long as the laws of such country are obeyed. There are various ways of entering international markets, and these may depend on a company's resources and marketing strategies.



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1.8 Possible Answers to SAEs

Answer to SAE 1

Five (5) reasons for regarding profits as a motivator for international business/trade include:

- i) Profit making is the essence of business;
- ii) It is necessary to keep running the business;
- iii) It is required towards enhancing owners' networth;
- iv) It is required to meet the expansion of the business; and
- v) It is also required to attract prospective investors

Answer to SAE 2

Factors that could influence a Nigerian manufacturer to relocate abroad while there are existing customers at home include:

- i) Expansion purpose
- ii) Gain international image;
- iii) Attract international investors;
- iv) To gain access to international funding; and
- v) To diversify risk of operations.

Answer to SAE 3

Five companies in Nigeria that are joint ventures include:

- i) MTN
- ii) DSTv
- iii) StarTimes
- iv) Unilever
- v) Cadbury

UNIT 4 FINANCIAL INFLUENCE ON INTERNATIONAL BUSINESS

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Financial Forces
 - 1.3.1 Fluctuating Currency Values
 - 1.3.2 Foreign Exchange Quotation
 - 1.3.3 Currency Exchange Control
 - 1.3.4 Balance of Payment
 - 1.3.5 Tariffs and Duties
 - 1.3.6 Taxation
 - 1.3.7 Inflation
 - 1.3.8 Household Savings
- 1.4 Summary
- 1.5 References/Further Readings/Web Resources
- 1.6 Possible Answers to Self-Assessment Exercises



1.1 Introduction

You can appreciate the fact that all business entities require finance for their operations. Therefore, financial influence on international business is an uncontrollable factor. The elements of such influence on business operations include: foreign currency; exchange risks; national balance of payment; taxation; tariffs; national monetary; and fiscal policies; and inflation, among others. Though all these are uncontrollable variables looking like disadvantages to a business concern, but as you can appreciate, if well studied and applied accordingly, they could turn out to be advantageous to a business entity. This unit examines financial influence on international business.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Analyze factors that affect international business finance
- Discuss the implications of foreign currency on international business
- Evaluate balance of payment
- Discuss tariff, taxation and government regulatory policy on international business activities
- Evaluate international accounting practice.



1.3 Financial Force

You can recall the uncontrollable nature of financial force on international business in respect for its elements. Such components are some financial factors that a business man, who goes international, struggles with in order to be successful in an international business environment.

These factors are uncontrollable, because as a businessman, you do not have control over them; however, you could critically study them and take advantage of the opportunity being created by them.

1.3.1 Fluctuating Currency Value

One of the major currencies Nigeria depends on in terms of exchange is the dollar. In the 1990s, to be precise, during Abacha's Regime, the naira was about 70 to 75 per dollar. From 1999 to 2006, Nigerian currency has been fluctuating between N160 and N180 per dollar.

Today, it is about N120 per dollar. What is the essence of such discussion?

You can appreciate the fact that the essence of this account is to examine the effect of this on an international businessman who operates in Nigeria at this period. The cost of goods that are brought in from outside Nigeria will continue to rise and fall thereby affecting business activities either positively or negatively depending on the situation at hand and the policies of the government. In a situation where the currency fluctuation is higher, the Central Bank may intervene in selling and buying the dollar.

You must be conversant with the exchange rate if you want to go into international business. It is very easy to get the currency value of the naira against major currencies in the world. You must bear it in mind that the rates are not always stable.

SELF ASSESSMENT EXERCISE 1

| |
|---|
| Identify five sources through which foreign currencies come into Nigeria. |
|---|

1.3.2 Foreign Exchange Quotations

Foreign Exchange Quotations is the price of one currency expressed in terms of another. Ball et al (2002), in the world's currency exchange markets, the US dollar (US \$) is the common unit being used for

exchange for other currencies. This means, a Japanese businessman who wants to buy goods in the US will have to convert his Yen to dollars to buy his goods.

1.3.3 Currency Exchange Controls

Ball et al (2002), describe currency exchange control as currency exchange control limit or the legal limit allowed of a currency in international transaction. Typically, the value of the currency is arbitrarily fixed at a rate higher than its value in the free market and it is decided that all purchases or

sales of other currencies be made through a government agency. As a result of this control, black markets inevitably

spring up, as the official channel, most times, cannot cope with the volume of demand from business. However, the black market is rarely able to accommodate transactions of a large size and which may involve multinational organisations (Czinkota, 2007).

You can recall that until recently, in Nigeria, the currency exchange was highly controlled with two different exchange rates- Inter banks rate and FEM rate. FEM rate is determined at fortnightly auctions. Borrowing from abroad is subject to the Federal Ministry of Finance approval. For incoming direct investment, approval is needed from Finance Ministry and Ministry of Internal Affairs which control foreign equity. A hundred percent international ownership is not allowed. In coming portfolio market requires Finance Ministry's approval. Remittance of dividends and profits is also controlled by the Finance Ministry. In conclusion, the Federal Ministry of Finance also controls the remittance of principal capital, interest, sales fees and pre-tax profit, reparation of capital and documentation of transfer of business or sale. The Federal Ministry of Finance is the gate-keeper for international business.

SELF ASSESSMENT EXERCISE 2

| |
|---|
| How has the Nigerian government been able to control foreign exchange in the country? |
|---|

1.3.4 Balance of Payments

Balance of payments is described as a situation where a country's export and import are equal. If the balance of payment is slipping into deficit, government may probably consider one or more market or non market measures to correct or suppress that deficit.

A government can do the following.

- i)** Currency devaluation
- ii)** Restrictive monetary or fiscal policies
- iii)** Currency or trade controls.

In terms of export, government will encourage export incentives, tax holidays, lower cost financing, or other advantages government may give to international businesses to encourage them to export, buy goods and services. All these affect international business either positively or negatively.

1.3.5 Tariffs or Duties

The terms tariff and duty are used interchangeably. They all refer to taxes usually imposed on imported goods. Tariffs and duties are imposed on some goods for the following reasons.

- i. Natural defense
- ii. Protecting infant industry

- iii. Protecting domestic jobs from cheap foreign labour
- iv. Scientific tariff or fair competition
- v. Retaliation

Other reasons for tariff imposition are that it

- vi. permits diversification of the domestic economy
- vii. improves balance of trade.

SELF ASSESSMENT EXERCISE 3

Identify five ways through which the country can benefit from imposition of tariffs.

1.3.6 Taxation

Taxes are collected from corporations by government so as to provide social services to its citizens. So many people believe that customers pay taxes through high price of goods and the appropriate authorities remit them to the government. It means a company with a lower tax rate would charge its customers less for its products. This may sound good, but in practice, that is not the case especially in Nigeria.

International companies pay more taxes because they operate in many countries; this entails a lot of documentation and paying large fees.

There are different taxes in different countries. If you look at some countries, you will discover that the income tax is the biggest revenue earner for them, especially the US. There are other taxes like value-added tax, capital gain tax, property taxes and social security.

1.3.7 Inflation

From transfer knowledge, you can infer that increase in prices of goods and services over a period of time is known as inflation. Reasons for inflation may be because of:

- rise in demand
- increase in money supply

Since 2006, there has been increase in prices of goods and services worldwide; it is believed that it is because of invasion of Iraq by America. Iraq has ended up selling crude oil per barrel at \$117 for the first time in the history of energy sector in the world.

Inflation has a lot of effects on interest rates because companies borrow; and the cost of borrowing is dependent on the rate of inflation. Once inflation sets in, the lender loses because the value of money is reduced and the borrower, gains, because the value of the money has gone down.

Inflation equally has an effect on a country's monetary and fiscal

policies. (Monetary policy is the amount of money in circulation, while fiscal policy is the collecting and spending of money by the government). Inflation has both positive and negative effects on a business especially the international business. To businessmen, high inflation encourages borrowing because, on repayment, it will be cheaper. High inflation rate brings about high interest rate and this may discourage lending to business organisations.

1.3.8 Household Savings

Ball et al (2002) stated that it is a percentage of disposable income which has a good measure of the saving rate in a country. The USA has a low saving rate while Japan has a high saving rate. Japan's economy is based on her saving rate which is better than that of the US in terms of investment and having good infrastructure. In Nigeria, during Babangida regime, we had no savings as a country but when Abacha took over and before he died we had a savings of \$7 billion. Before Obasanjo handed over power in 2007, it was close to \$50 billion. Today we are close to \$70 billion. It is expected that the money would be used in investing in infrastructural development and this would attract more international businesses.



1.4 Summary

You have taken through this unit in relation to the various components of finance that affect business operations. Such components include Taxation, household savings, inflation, balance of payment, currency exchange control, tariffs and duties, foreign exchange quotation etc. They are all financial forces that an international businessman must look into while contemplating doing international business. They could have both negative and positive effects on a business, depending on how they are handled. For instance, inflation could be advantageous to a borrower while on the other side, the cost of borrowing could be high.



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1.6 Possible Answers to SAEs

Answer to SAE 1

- i) Foreign exchange earnings by government
- ii) Transfers from Nigerians in diaspora
- iii) Earnings from investment abroad
- iv) Export earnings by individual exporters
- v) Foreign exchange earnings by companies, e. g., oil multinational companies, etc.

Answer to SAE 2

In Nigeria, the currency exchange was controlled Foreign Exchange policies. For the control was at the purview of the apex bank (CBN) such as with two different exchange rates

- i) Inter banks rate and
- ii) Foreign Exchange Market (FEM) rate.

The FEM rate is determined at fortnightly auctions.

Answer to SAE 3

Five ways through which the country can benefit from imposition of tariffs include:

- i) Increase in GDP;
- ii) Enhancing production of domestic industries;
- iii) Availability of job opportunities;
- iv) Enhanced government revenue; and
- v) Leads to enhanced economic growth and development of the country.

UNIT 5 INTERNATIONAL BUSINESS ENVIRONMENT 1

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 International Business Environments
 - 1.3.1 Economic and Socio-Economic Forces
 - 1.3.2 Physical and Environmental Forces
 - 1.3.3 Socio-Cultural Forces
 - 1.3.4 Political Forces
- 1.4 Summary
- 1.5 References/Further Readings/Web Resources
- 1.6 Possible Answers to Self-Assessment Exercises



1.1 Introduction

Domestic market, also known as home market, as you know, is affected by some environmental variables known as uncontrollable variables that are external to the business. You can also understand that international market is not an exception to the environmental forces that shape business operations generally. Thus, an international businessman must critically study these variables before going abroad. The effects of such forces or variables on international business activities can be very devastating or colossal. This unit examines the nature of such variables and their impact on international business activities.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Analyze the international uncontrollable forces
- Discuss the economic variables
- Evaluate the physical and environmental forces
- Discuss the socio-cultural variables
- Analyze the legal and political variables.



1.3 The Nature of International Business Environments

You have understood from previous study units that international environment is diverse with varied forces that are distinct from the domestic business environment. Therefore, going abroad for business, you are bound to face varied problems that are different from that of your home country. For instance, Nigeria and Brazil are engaged in international business; the economic, physical, political, and other environmental factors in Nigeria differ from that of Brazil. Thus, you need to critically study Brazil's environmental

variables/factors before you go into her market. But what are forces that are not favourable to the business operations at international level? Hence, we shall consider the following factors.

SELF ASSESSMENT EXERCISE 1

Give five ways through which international environment affects business environment.

1.3.1 Economic and Socio-Economic Forces Economic Aspect

Once you have decided on the economy or country which you want to explore, the following are the factors to investigate under the economic aspect.

i) GNP, GNP/capita and GDP/capita, income distribution, private consumption, gross domestic investment, private and government consumption and unit labour cost.

ii) **GNP:** - Is gross national product, it is the total value of all goods and services produced domestically not including net factor income from abroad. The United States GNP is about \$80 trillion while Sao Tome and Principe is 44 Million.

iii) **GNP/capita and GDP/capita:** - GDP is the measured access to a country 's wealth by individuals within a nation. Per capita of Nigeria is less than a dollar.

iv) **Income Distribution:** - It is a measure of how a nation's income is apportioned among its people, commonly reported as the percentage of income received by population quintiles.

v) **Private Income:** - This is described as discretionary income i.e. how much is left for individuals after paying taxes and spending on necessities. Business men are interested in this before they enter a market, because this determines the purchasing power of such market.

vi) **Gross Domestic Investment:** - Amount of private investment.

vii) **Private and Government Consumption:** - The total amount of money spent in provision of goods and services. In most countries it rises.

viii) **Unit Labour Cost:** - This is the total production labour costs divided by units produced. This is done to know whether it will be favorable to go into a particular market.

The Socio-economic Dimensions include the following:

i) **Total population:** - The total population of the market abroad should be critically examined. It is believed that if a country's population is high, the market is likely going to be high.

ii) **Age Distribution:** - In Nigeria, the youth have the highest percentage, followed by the adults, children and the aged.

iii) **Population Density and Distribution:** - Population density is a measure of the number of inhabitants per area units, while population distribution is a measure of how inhabitants are distributed over a nation's area.

iv) **Rural Urban Drift:** - Movement of individuals from rural settlement to urban settlement. In Nigeria, it is rising daily.

SELF ASSESSMENT EXERCISE 2

Give five ways through Nigeria's high population be an advantage to an international business man.

1.3.2 Physical and Environmental Forces

You can appreciate that the physical environment such as the nature of land can also affect business operations in foreign countries. In considering physical and environmental forces, it is important to examine the following:

- i) **Topography:** - If a businessman is to come into Nigeria from Australia, he should be interested in the following physical landscape of Nigeria.
- ii) **Mountains and plains.** Because in countries like Spain, Switzerland, China, Colombia, mountains divide markets; it equally has an implication on population concentration.
- iii) **Deserts.** This naturally would indicate scanty population which would affect markets.
- iv) **Bodies of water.** This could help in transportation like inland waterways.
- v) **Climate and development.** The climatic implication to business is great, because it influences the type of goods we trade in. Natural resources must equally be studied because they affect business. These resources may include:
 - vi) **Energy** - These include petroleum, local and nuclear power, non-fuel minerals. In OPEC, presently the output is less and the prices are rising, because of this, international businessmen must study or monitor changes because they are necessary and may affect business.

The study and close observation of natural resources in a country is very important. In fact, effective environmental management is a global issue nowadays.

1.3.3 Socio-Cultural Forces

Culture: - You understand from transfer learning that culture implies the sum total of beliefs, rules, techniques, institutions and artifacts that characterise human population.

You do appreciate that culture being part of the environment also affects all business functions as far as marketing, human resource management, production and finance are concerned. An international businessman needs to study these socio-cultural variables of the international market because they are the pivot of business activities. To a certain degree, they influence the success or failure of international business activities.

There are communities that believe in the superiority of their own ethnic group, you must appreciate this to succeed in this type of community market. But what are those components of culture in any given country. Such socio-cultural components that a businessman should critically study before going international include the following among others.

- i. **Aesthetics:** - A country's sense of beauty and good tastes.

- ii. Attitude and beliefs.
- iii. **Religion:** - In Nigeria, the major religions are Christianity, Islam and Traditional religion.
- iv. **Material culture:** It refers to all human made objects and thus concerned with how people make things (technology) and who makes what and why (economics).
- v. **Education:** People's literacy influences the type and mode of business they engage in.
- vi. **Language:** In Nigeria, we have over 360 languages. It does not mean that an international businessman must speak them all, but he/she must appreciate them.
- vii. **Societal organisation:** This includes cultural festivals which may involve legal and/or political structures.

SELF ASSESSMENT EXERCISES 3

1. How can religion affect an international business?
List three socio-cultural forces that can affect the international businessman.

1.3.4 Political forces

In the world, there are four different types of ideological forces.

- i. **Communism-** It was propounded by Karl Max to mean a classless society. It was developed by his successor (Lenin) into a control of society by the communist party and the attempted worldwide spread of the ideology.
- ii. **Capitalism-** It is an economic system in which the means of production and distribution are for the most part privately owned.
- iii. **Socialism:** - Public, collective ownership of the basic means of production and distribution and operating for use rather than profit.
- iv. **Conservative or liberal:** -This refers to a person who wishes to minimise government activities and maximise private ownership and business. It is equally referred to as right wing liberal: It is popular in America. Conservatives are particular about greater government investment in most aspects of human activities.

The country in which you want to do business must be studied to know which mode of government it operates. Other areas to study in terms of political forces are the following.

- i) The government ownership of business.
- ii) The privatisation system. That this, to some extent, is in practice in Nigeria.
- iii) Nationalism - The level of one's devotion to one's nation. For instance, Americans are believed to be more nationalistic than Nigerians.
- iv) Government protection- American government is good at this, it unapologetically fights for its interests when they are threatened.

v) Government stability- some nations are stable while some are not. - Traditional hostilities: The long-standing enmities between tribes, races, religion, ideologies or countries.

- International organisations: - Must be contended with if you go international in your business.



1.4 Summary

You have acquired knowledge about the international environment which is not different from the domestics in terms of their dimensions. The components of such environment include; political forces, socio-cultural forces, physical and environmental forces, economic and socio-economic forces. From the discussion in this unit, you have come to understand that there are serious forces that an international businessman must study carefully before venturing into a market. A lot of businesses have been wrecked at the international level as these forces were not taken into consideration at the onset.



1.5 References/Further Readings/Web Resources

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1.6 Possible Answers to SAEs

Answer to SAE 1

- i. Foreign exchange earnings by government
- ii. Transfers from Nigerians in diaspora
- iii. Earnings from investment abroad
- iv. Export earnings by individual exporters
- v. Foreign exchange earnings by companies, e. g., oil multinational companies, etc.

Answer to SAE 2

In Nigeria, the currency exchange was controlled Foreign Exchange policies. For the control was at the purview of the apex bank (CBN) such as with two different exchange rates

- i) Inter banks rate and
- ii) Foreign Exchange Market (FEM) rate.

The FEM rate is determined at fortnightly auctions.

Answer to SAE 3

Five ways through which the country can benefit from imposition of tariffs include:

- i. Increase in GDP;
- ii. Enhancing production of domestic industries;
- iii. Availability of job opportunities;
- iv. Enhanced government revenue; and
- v. Leads to enhanced economic growth and development of the country.

MODULE 2

- Unit 1 International Business Environment II
- Unit 2 International Organisation and International Business
- Unit 3 International Business Research
- Unit 4 International Marketing
- Unit 5 Export and Import Practices (American Example)

UNIT 1 INTERNATIONAL BUSINESS ENVIRONMENT II

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 International Business Environment
 - 1.3.1 Legal Forces
 - 1.3.2 Labour Forces
- 1.4 Competitive Environment
- 1.5 Competitive Analysis
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercises



1.1 Introduction

As you have understood from the discussion in Unit 5 of Module 1, there are many forces in the environment of internal business. Such forces include legal forces, labour forces and competitive forces, which have to be critically examined. You can appreciate that their effect of each must be studied before proceeding into an international business just like other forces discussed in the previous unit. Thus, this unit examines the impact of legal, labour and competitive elements on international business operations.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss the legal forces affecting international business
- Analyse the nature labour forces in
- Evaluate the competitive forces as they affect international business.



1.3 International Business Environment

You will recall that the international business environment is so complex for prospective and potential businessmen due to its complex nature largely because of the various forces affecting its operations. Therefore, such forces like legal, labour and competition variables, as they affect business activities must be critically examined.

1.3.1 Legal Forces

Do all countries have different laws regulating the economic operations such as business activities? Of course, they do. Hence, for a foreign firm to operate in Nigeria, it has to understudy those laws that are formulated into regulations of Nigerian business environment. For instance, the following are good examples of regulatory laws and agencies in Nigeria for domestic business, and once you want to operate in Nigeria from a foreign country, they must equally apply to you and so also those firms that are coming to operate in the country.

1. Standard Organisation of Nigeria (SON)

The Nigeria Standard Organisation Act of 1971 establishes SON as an integral part of the Federal Ministry of Industries. The SON is to carry out the following functions among other things.

- i) To designate, establish and approve standards in respect of meteorological materials, commodity structures and process for the certification of products in commerce and industry throughout Nigeria.
- ii) To provide necessary measures for quality control of raw materials and products in conformity with the standard specification.
- iii) To ensure compliance with designated standard.
- iv) To establish a quality assurance system including certificate for factories, products and laboratories.
- v) To develop methods of testing materials, supplies equipment and items purchased for use of public and private establishment.
- vi) To establish and maintain laboratories necessary for the performance of their functions.

2. National Agency for Food and Drug Administration and Control (NAFDAC)

NAFDAC was established in 1993 with such functions as to:

- i) regulate and control the importation, exportation;
- ii) manufacturing, advertisement, distribution, sales and use of food, drugs, cosmetics, medical services, bottled water and chemicals.

3. Drugs and Related Productions

Non-drug products like cosmetics or medical devices shall be manufactured, imported, advertised, sold or distributed in Nigeria unless it is registered in accordance with the provisions and regulations of 1993

Act.

4. Environmental Impact Regulation

Similar to what obtains in several other countries, environmental protection is accorded a lot of prominence in Nigeria. The Federal Environmental Protection Agency (FEPA) is charged with overall responsibility of monitoring, supervising and coordination of environmental impact assessment procedure for Nigeria, as well as environmental assessment guideline for various industrial sectors of the country.

5. Trade Malpractice (Miscellaneous Offences Decree 1992)

This law provides punishable offences relating to trade malpractice and could set up a special trade malpractice investigation panel to investigate such offences. The law provides against any person who:

- i) falsely labels, packages, sells, offers for sale or advertises any product so as to mislead as to its quality, character, brand name, value, composition, merit or safety.
- ii) contracts or deals, uses or intends to use any weight measure which is false or unjust for the purpose of sale
- iii) sells any product by weight measure or number less than is purported to be sold.
- iv) advertises or invites subscription for any product which does not exist.

The following are some laws and regulations governing the establishment and operations of business in Nigeria.

- i. Nigeria Investment Promotion Commission Decree No 16 of 1995.
- ii. Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No 17 of 1995.
- iii. Immigration Acts of 1963.
- iv. Dumped or Subsidised Goods Act No 9 of 1958.
- v. Custom Duty Drawback Regulation No 70 of 1958.
- vi. Securities and Exchange Commission Act of 1979.
- vii. Privatisation and Commercialisation Decree No 75 of 1988

SELF ASSESSMENT EXERCISE 1

| |
|--|
| What areas are affected by the operations of NAFDAC to international business? |
|--|

1.3.2 Labour Forces

From transfer learning, you can recall that labour is very necessary for productive activities in any business. But can any firm just get labour force without any encumbrance or considering the nature of the labour market? To start with, labour, in economics, is an effort necessary made to satisfy human needs. As one of the three leading elements in production, they are subject to regulatory laws in any country. You will recall that the other two factors of production being land (natural objects) and capital.

Labour forces have the following factors that affect international business.

- i) Labour mobility
- ii) Guest workers and labour shortages
- iii) Composition of labour force
- iv) The role of social status, sexism, racism, traditional society or minorities in employment policies
- v) Employer-employee relationship.

Labour Mobility

It means the movement of people from one country or area-to-area to another in order to get jobs. In the US, say 10.4 percent of the populations are foreigners working in different sectors of the economy. The labour mobility could be as a result of influx of refugees/asylum seekers (ILO, 2022).

Guest Workers and Labour Shortages

These are people who are in another country legally to perform certain jobs; countries like France, Germany etc. have low birth rate, people go there as guest workers because of shortage in employable population (ILO, 2022).

Composition of Labour Force

It is the combination of all that are employable in a given country and region. It involves age, skill, gender, race and religion. In Nigeria, the number of Northern women in employment scale has risen; before, they were excluded.

Consideration in Employment Policies

The social variables for consideration in employment policies are sex, race, tribe, club membership etc.

Employer-Employee Relationship

Ball et al (2002) opined that labour market is the pool of available potential employees with the necessary skills within countries. The employer could be an individual, corporate or a government. A businessman must study the rules and regulations guiding employer- employee relationship in a country. For international businessman, it is very important to diligently study these guiding rules before venturing into the international arena. A country with a high rate of labour unrest is not profitable for business (ILO, 2022).

1.4 Competition Environment

Is it possible for an economic environment to be devoid of competition? Competitive forces are present in any industry operating in a country and they are many and varied. You can appreciate the competitive nature of business from the following considerations:

1. Marketing Point of View

Businessmen must constantly keep an eye on competitors that may invade their markets and erode their market share. Competition comes in many forms. Any alternative satisfier of a need or want is a competitor.

Marketers must know the number and size of their competitors as well as the tools they use in competition. Marketers must also pay attention to competition from abroad (foreign countries) as some of these foreign competitors are gaining a growing advantage over the domestic marketers. Example is in the area of telecommunication, where MTN, 9Mobile, etc, have advantages over landline company.

2. Competition within a Region

This is a competition within a particular region, for instance, ECOWAS countries could come together to compete with other groups.

Sometimes, competition could be from between two or more countries. The US for example is competing in all aspects of economy with Japan, Asia, and Hong Kong, etc.

Competition is a healthy development for business, because it compels the competitors to adequately satisfy the target markets otherwise sales/patronage would drop.

For business to be able to compete there is need for analysis of business competitive forces, which include:

- i. competitor analysis
- ii. competitor intelligence system (CIS)

SELF ASSESSMENT EXERCISE 2

Identify five areas in which firms compete in a given environment.

1.5 Competitive Analysis

You can appreciate that analyze the environment of competition is germane in business environment. Hence the analysis is a situation where principal competitors are identified, and their objectives, strengths, weaknesses and product lines are assessed. Sources of information for competitors analysis are obtained from:

- i. Within the firm
- ii. Published materials
- iii. Suppliers/customers
- iv. Competitors employees
- v. Direct observation or analysing physical evidence.

There is issue of Competitive Intelligence System (CIS)

This consists of the procedures for gathering, analysing and disseminating information about a firms' competitors.

SELF ASSESSMENT EXERCISE 3

It is assumed that your line of business falls under communication industry; name four major competitors.



1.6 Summary

You have acquired knowledge from this unit that legal forces, labour forces and competitive forces are also variables that affect business operations in international business environment be studied carefully so that an international businessman does not underestimate the market potentials. These forces must be studied well, if not, they will have negative effect on international business activities.



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1.8 Possible Answers to SAEs

Answer to SAE 1

Areas of operations of NAFDAC affecting international business include:

- i. Food
- ii. Drugs
- iii. Production of food and drugs
- iv. Consumption of food and drugs
- v. Production and consumption of table and pure water

Answer to SAE 2

Five areas in which firms compete in a given business environment include:

- i. Production of commodities
- ii. Marketing of products and services
- iii. Pricing of commodities
- iv. Promotion of products and services
- v. Product line enhancement

Answer to SAE 3

Four major competitors in communication industry in Nigeria include:.

- i. MTN
- ii. GLO
- iii. Airtel
- iv. 9Mobile

UNIT 2 INTERNATIONAL ORGANISATIONS AND INTERNATIONAL BUSINESS

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
 - 1.3 International Organisations
 - 1.3.1 United Nations
 - 1.3.2 World Bank
 - 1.3.3 International Monetary Funds
 - 1.3.4 World Trade Organisation
 - 1.3.5 Organisation of Petroleum Exporting Countries
 - 1.3.6 African Trade Organisation
 - 1.3.7 Bank for International Settlements
- 1.4 Summary
- 1.5 References/Further Readings/Web Resources
- 1.6 Possible Answers to SAEs



1.1 Introduction

You will recall from transfer learning that the essence of international organisations to international business is to aid in facilitating, financing and at the same time, regulating international business operations. International organisations are mostly regional or worldwide; they may be a source of financing or a source of order for business organisations operating around the world and equally sources of jobs in their host countries in particular and other nations in the world. You can also recall that these organisations have a lot of relationship with businesses. Therefore, it will be myopic of a business organisation to understand only the political, socio-cultural, etc. environment without understanding the international organisations that have impact on international business operations. Examples are given of companies that want to merge with another firm in US which may need the approval of EU regulators so that the merger will not have ripple effects in the European market. Thus, this unit examines the influence of international organisations on international business



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss the influence of the UN on international business worldwide
- Analyse the role of IMF in world economies
- Evaluate the role of World Bank in world economies
- Discuss the contribution of OPEC in world economies
- Evaluate the contribution of African Trade Organisation in African economies.

1.3 International Organisations

You can understand that an international association of two or more groups especially countries is normally aim at protecting members interests in different areas which may include business, culture, military etc. In order to concretize such associations, international organizations are created for long lasting relationships (Duffield, 2007; Muntschick, 2022). Such International organisations include:

- i) United Nations
- ii) World Bank
- iii) International Monetary Fund
- iv) World Trade Organisation
- v) Organisation of Petroleum Exporting Countries
- vi) African Trade Organisation
- vii) Bank for International Settlement.

1.3.1 The United Nations

The UN is the most popular and best-known worldwide organisation.

After the World War II, the UN was formed. It has done a lot and many people have viewed its achievement from both the positive and negative angles. The United Nations has 189 member countries. The body is dedicated to the promotion of peace. It also has many other functions related to business. The UN has different programmes and specialised agencies. It equally has autonomous organisation and convention secretariat.

The UN carries out its activities through five main body organs. They include:

- i) The General Assembly
- ii) The Security Council
- iii) The Economic and Social Council
- iv) The International Court of Justice
- vi) The secretariat

i) The General Assembly

It is a deliberative body of the UN made up of all member nations, each with one vote regardless of size, wealth or power.

ii. The Security Council

The Security Council consists of five permanent members with veto power. There have been consistent agitations for the expansion of the Security Council.

iii. The Secretariat

The Secretary General is the head and equally a staff of the UN. The headquarters, which is situated in New York City, is charged with the responsibility of day-to-day administrative functions. At present, Mr.

Ban-ki-Moon is the Secretary General. Kofi Anan of Ghana was the immediate past Secretary General of the UN.

iv. The Economic and Social Council (ECOSOC)

Ball et al (2002) described it as concerned with economic problems such as trade, transport, industrialisation, economic development and social issues, including population, children, housing, women's rights, racial discrimination, drug trafficking, crime, social welfare, youth, the environment and food.

v. International Court of Justice

The organ is established to resolve disputes among sovereign states and not individuals. The issue of Bakassi between Nigeria and Cameroon is still fresh in our memory.

The question one may ask at this juncture is, what is the contribution of the United Nations to international business? The answer is given by Ball et al (2002) when they state that the UN has contributed to business in the following seven ways.

- i. When ships sail freely across the seas and through international straits, they are protected by rules legitimised in UN conferences.
- ii. Commercial airlines have the right to fly across borders and to land in case of emergency, due to agreement negotiated by the international civil aviation organisation, a part of the UN system.
- iii. The World Health Organisation sets criteria for pharmaceutical quality and standardises the names for drugs.
- iv. Universal Postal Union protocols prevent losses and allow mails to move across borders.
- v. International Telecommunication Union allotment of frequencies keeps the airwaves from becoming hopelessly clogged and thus avoids interference among radio transmissions.
- vi. Data collected and redistributed from member states by the World Meteorological Organisation makes possible worldwide and country specific weather forecast.
- vii. The UN sales convention and the UN convention on the carriage of goods by sea help to establish rights and obligations for buyers and sellers in international commercial transaction.

SELF ASSESSMENT EXERCISE 1

State five contributions of the UN to international business.

1.3.2 The World Bank

You can understand that international development requires a financial institution to facilitate it in various nations of the world. Hence is the World Bank is the largest source of development assistance in the world; it provides about \$16 billion loan to its clients i.e. countries. Most of the credit is given to developing countries. The World Bank is otherwise known as International Bank for Reconstruction and Development (IBRD). The World Bank consists of the followings.

- i. World Bank
- ii. International Finance Corporation (IFC)
- iii. International Development Association (IDA)
- iv. Multinational Investment Guarantee Agency (MIGA)
- v. International Center for Settlement of Investment Disputes (ICSID)

But then, how does the World Bank assist nations in area of development? The World Bank gives out what is called hard-loan which is made payable in hard, convertible currencies at market interest rates with normal market maturities.

Relatedly, the World Bank has the following organisations under it:

i. International Finance Corporation (IFC)

It is the World Bank's group investment banker; it operates in the developing countries with private risk ventures and creation of local capital markets.

ii. International Development Association (IDA)

It gives out soft loans to developing countries and repayable in soft, convertible currencies carrying low or no interest obligation. The loans are frequently long term, up to 40 years, and may grant grace period of up to 10 years during which no payments are required.

iii. The Multilateral Investment Guarantee Agency (-MIGA)

This agency operates foreign investment in about 152 countries that are members MIGA issues contract in most developing countries. Ball et al (2002), say, MIGA, had issued more than 420 contracts to private investors for projects in some 70 developing countries facilitating more

than \$30 million in private investment.

iv International Centre for Settlement of Investment Disputes (ICSID)

You can understand that disputes always arise from the relationships amongst nations of the world. Just like International Court of Justice, ICSID provides facilities for settlement by conciliation or arbitration of investment disputes between foreign investors and their host countries.

World Bank therefore impacts business for the fact that loans are given out members of host countries feel the impact of this either directly or indirectly.

SELF ASSESSMENT EXERCISE 2

State World bank's financial organs that do assist various financial transactions and development in the world.

1.3.3 International Monetary Fund (IMF) What happens in a situation whereby a nation is in serious problem about a grave balance of payments?

IMF business is more with government. Despite this, it has a tremendous effect on business worldwide. The main objectives of IMF include:

- i. orderly foreign exchange agreements
- ii convertible currencies
- iii. shorter duration and lesser degree of balance of payments disequilibrium.
Before now, IMF was charged with the responsibility of fixing permanent exchange rate among member nations, which was fixed at \$35 per ounce of gold.

In the 1970s and 1980s, there were some fundamental changes in IMF. The major change was the abandonment of the fixed exchange rate and the adoption of the floating exchange rate.

The IMF had more power for firm surveillances which permits it to influence or even dictate fiscal and monetary policies of member countries. The IMF contributes to policy coordination among the major industrialised countries known as G7, which are: Canada, France, Germany, Italy, Japan, the UK and the USA.

IMF has conditionality and cooperation with the World Bank. The two organisations work with borrowing member countries in what is called Structural Adjustment Facilities (SAFs) or Enhanced Structural Adjustment Facilities (ESAF).

The effect of IMF on international business is equally direct and indirect. The indirect is the policy a country adopts which affects her business.

If a country limits her import and expands her export, it means companies coming to operate in a host country will be limited in their business activities.

1.3.4 World Trade Organisation

How do nations settle trade disputes? As you can understand, trade disputes do arise in the process of internal trade relations amongst nations. The World Trade Organisation impacts greatly on international business activities. It has its direct and indirect effects on international business.

Ball et al (2002) opine that WTO is a multinational organisation designed to deal with value of trade among nations. The WTO works with its core agreements, which were negotiated, signed and ratified by World's most trading nations. WTO has its headquarters in Geneva, Switzerland. It has 140 countries as members. WTO has made its impact felt in the area of trade restrictions (Shukla, 2000).

The general agreement on tariff and trade was signed in 1947. The general tariff among member nations was reduced from 40 percent to five percent. Issues of tariff among member nations for instance, like disputes were amicably settled by GATT. Because of this, trade in manufactured goods multiplied up to 20 times (Shukla, 2000).

WTO has many problems, among which are the following.

- i. Regional Trade Agreements (RTAs) are weakening WTO.
- ii. RTAs are destroying trade at the expense of countries that are not party to the agreements.
- iii. There have been a lot of protests from member countries.
- iv. The question of whether member countries abide by the decisions of GATT or not.

1.3.5 Organisation Of Petroleum Exporting Countries (OPEC)

The Organisation of Petroleum Exporting Countries (OPEC) is a large group of countries made up of Algeria, Angola, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia the United Arab Emirate, Venezuela and Ecuador (which rejoined OPEC in November 2007). The organisation has maintained its headquarters in Vienna since 1965, hosting regular meetings among the oil ministers of its member states.

The principal aim of OPEC according its statute, is the determination of the best means for safeguarding their interests. The member nations individually and collectively devise ways and means of ensuring the stabilisation of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations, giving due regard at all times to the interests of the producing nations and to the necessity of securing a steady income for the producing countries. Efficient, economic and regular supply of petroleum to consuming nations and a

fair return on their capital to those investing in the petroleum industry is another serious function of OPEC.

OPEC's influence in the market has been called into question; several members of OPEC alarmed the world on triggered high inflation across the developing and developed world when they used oil embargo in the

1973 oil crisis. OPEC's ability to control the price of oil has diminished somewhat, since the discovery and development of large oil reserves in the Gulf of Mexico and the North Sea, the opening up of Russia and market modernisation.

OPEC nations still account for two-thirds of the world's oil services and in 2005, 41.7 percent of the world's oil production, affording them considerable control over the global market. The next largest groups of producers are the post Soviet States which produced 23.8 percent and 14.8 percent respectively of the world's total production. As early as 2003, concerns that OPEC members had little excess pumping capacity sparked speculations that their influence on crude oil prices would begin to slip.

One major OPEC achievement is pricing. The body has had considerable influence on oil pricing. Any international businessman in area of energy would do well by taking cognisance of OPEC's views before making any decision.

Oil sales worldwide are denominated in US dollars; changes in the value of the dollar against other world currencies affect OPEC'S decisions on how much oil to produce.

1.3.6 African Trade Organisations

Ball et al (2002) reported that to promote economic growth throughout the continent, several African countries have formed trade and investment organisations. Three of these organisations are the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Countries (SADC). See also Muntschick, J. (2022).

1.3.7 Bank for International Settlements

Ball et al (2002) reported that Bank for International Settlements (BIS) is an international organisation that fosters cooperation among central banks and international financial institutions. The BIS deals with government and government agencies, it does not accept deposits from or provide financial services to private individuals or corporations.

The BIS has four main functions.

- i. A forum for international monetary cooperation
- ii. A centre for research
- iii. A banker to central banks
- iv. An agent or trustee with regards to various international financial arrangements.

SELF ASSESSMENT EXERCISE 3

Identify five contributions of OPEC to its member countries.



1.4 Summary

You have been able to imbibe some knowledge that international organisations are necessary for the growth of international business. These organisations are needed for the growth of the business environment. Furthermore, international organisations have influence on business and business people worldwide. Most of these organisations are more or less government organisations, with the aim of fostering unity among member nations.



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1.6 Possible Answers to SAEs

Answer to SAE 1

Five contributions of the UN to international business

- i. The World Health Organisation sets criteria for pharmaceutical quality and standardises the names for drugs.
- ii. Universal Postal Union protocols prevent losses and allow mails to move across borders.
- iii. International Telecommunication Union allotment of frequencies keeps the airwaves from becoming hopelessly clogged and thus avoids interference among radio transmissions.
- iv. Data collected and redistributed from member states by the World Meteorological Organisation makes possible worldwide and country specific weather forecast.
- v. The UN sales convention and the UN convention on the carriage of goods by sea help to establish rights and obligations for buyers and sellers in international commercial transaction.

Answer to SAE 2

World bank's financial organs that do assist various financial transactions and development in the world include:

- i. International Finance Corporation (IFC)**
- ii. International Development Association (IDA)**
- iii. The Multilateral Investment Guarantee Agency (-MIGA)**
- iv. International Centre for Settlement of Investment Disputes (ICSID)**

Answer to SAE 3

Five contributions of OPEC to its member countries include:

- i. One major OPEC achievement is pricing.
- ii. The body has had considerable influence on oil pricing.
- iii. Influences the output of oil producing nations.
- iv. Facilitates the stabilization of price offerings by buyers of oil.
- v. Gives support to members in output stabilization.

UNIT 3 INTERNATIONAL BUSINESS RESEARCH

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 International Business Research
 - 1.3.1 International and Domestic Research
 - 1.3.2 Recognising the Need for International Research
 - 1.3.3 Determining Research Objectives
- 1.4 Conducting Business Research
 - 1.4.1 Conducting Secondary Research
 - 1.4.2 Conducting Primary Research
- 1.5 The International Information System
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercises



1.1 Introduction

You can appreciate the fact that business investment should be based on feasibility of the venture in terms of returns that the investment will generate. But how do you obtain information about a feasibility of investment? Business research is the first step taken by any businessman before investing his money in either domestic or international business. A lot of businessmen started business without research, the consequences are better imagined. Because of information technology, research has become easier; one can be in one's own house and get information from another country with the press of a button. An international businessman must know about research, its objective, how to conduct research with the use of both primary and secondary sources of information. When all these are done before going international, business failure becomes less.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss international business research
- Analyse reasons for international research Demonstrate ...
- Discuss the research objectives
- Analyze how to conduct secondary and primary research.



1.3 International Business Research

This is a research that is carried out about another country with the aim of doing business in such a country once the research is favourable.

1.3.1 International and Domestic Research

International research is not the same as domestic research. They have some basic differences which are listed below.

I. New Parameters

Hence, you will expect that doing business abroad thus implies that the researcher must look at the following parameters:

- a) Duties of different countries
- b) Foreign currencies and changes in their values
- c) Different modes of transportation
- d) International documentation.

II. New Environmental Factors

You can also understand from discussion on business environment that when going international in research, the following environmental factors are encountered that may not be found in domestic environment.

- i) Culture of the host country
- ii) Political system
- iii) Societal structures and language
- iv) Legal issues
- v) Technology

III. Number of Factors Involved

While going international in research, you need to get results and be able to:

- a) compare result and activities across countries.
- b) learn from its international operations and must find ways to apply the new lessons learned to different markets.

IV) Broader Definition of Competition

You can infer from transfer learning that it has been discovered that firms have greater variety of competition than that found in the home market.

SELF ASSESSMENT EXERCISE 1

| |
|---|
| Identify five factors to consider when going on international research? |
|---|

1.3.2 Recognising the Need for International Research

The pertinent question is this: Does international research necessary in business? Research is necessary but a lot of managers are reluctant to engage in international research for the following reasons:

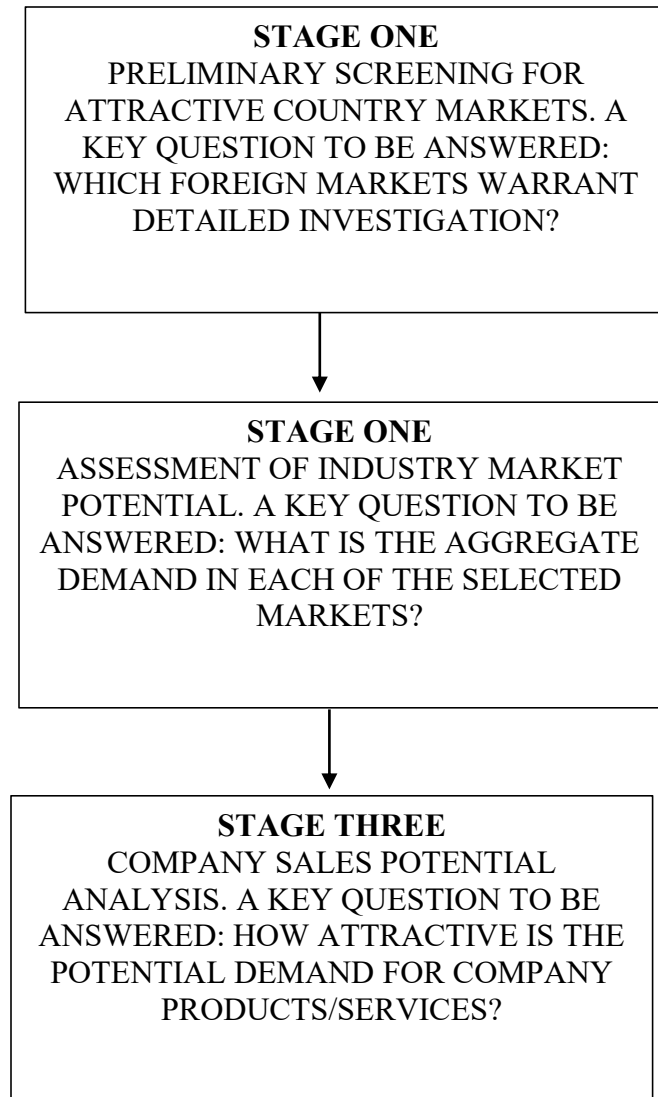
- i. Lack of sensitivity to differences in culture, consumer tastes and market demands.
- ii. Limited appreciation for the different environment abroad.
- iii. Lack of familiarity with national and international data sources and mobility to use international data once they are obtained.
- iv. Firms often build their international business activities gradually and frequently based on unsolicited orders.

1.3.3 Determining Research Objectives

Your objectives will be on whether you want to:

- i. export
- ii. import or
- iii. go into market expansion

One major objective of international research is to discover new foreign market opportunities.



RESEARCHING FOREIGN MARKET POTENTIALS

Source: Czinkota, M. A., Ronkainen, I. A. & Moffett, M. H. (2004). *Fundamentals of International Business*. Mason, Ohio, USA : Thomson.

1.4 Conducting Business Research

1,4.1 Conducting Secondary Research

In conducting secondary research, the following process (Czinkota et al., 2004), must be observed:

- i. Identifying sources of data. ii. Selection of secondary data.
 - iii. Interpretation and analysis of secondary data. iv. Data privacy.
- (i) Identifying Sources of Data**

Secondary data can be got from,

- Government
- International organisation
- Service organisation
- Trade association
- Directories and newsletters
- Electronic information services.

(ii) Selection of Secondary Data

Secondary data are readily available, cheap and quick to get. Secondary data should be evaluated as:

- the quality of their source or sources
- how recent they are
- relevancy to task at hand

(iii) Interpretation and Analysis of Secondary Data

Secondary data, when collected, may not be so useful not until they are converted into information. They are used as proxy information to arrive at conclusions.

(iv) Data Privacy

Data collected must be guarded jealously because the information collected is sensitive.

1.4.2 Conducting Primary Research

Primary data are obtained by firms to fill specific information needs. Czinkota et al (2002) went further to buttress that a typical primary research intends to answer clear-cut questions such as the followings.

- i. What are the sales potentials for measuring equipment in Malaysia?
 - ii. How much does the typical Greek consumer spend on fast food?
 - iii. What effect will new type of packaging have on meat consumers in Norway?
 - iv. What service standards do industrial customers expect, say, in Japan?
- You have to understand that conducting primary research involves decision in the following areas:

(i) Industrial versus Consumer Sources of Data

A decision must be arrived at as to whether the research is going to be based in an industrial or consumer product area. In a consumer market,

the population is large while the population in an industrial market is less. If research is done in an industrial market, differences between users and decision makers are important because of their personality's outlook and their evaluative criteria. It means that you must determine the focus of the research because it is important to have a well conducted research.

(ii) Determination of the Research Technique

It is interesting to know that there are a lot of factors to be considered before selecting a research technique.

- a. Objective of the data sought.
- b. Is the data subjective or objective?
- c. Is the data collected in the real world or controlled environment?
- d. Is it historical factors?

Once all these are determined, you can choose any of the following techniques of research:

a. Interviews

Major disadvantage is that bias can set in.

b. Focus group

A group of knowledgeable people are gathered for a limited period of time (two to four hours), with about seven to ten participants, a topic is introduced and discussed.

c. Observation

It requires the researcher to play the role of a non participating observer of activity and behaviour.

d. Surveys

As defined by Czinkota et al (2004), survey is usually conducted via questionnaires that are administered personally, by mail, or by telephone. Use of the survey technique presupposes that the population under study is accessible and able to comprehend and respond to the questions posed through the chosen medium.

e. Experimentation

It determines the effect of an intervening variable and helps establish precise cause-and-effect relationships, it is difficult to implement in international research, it faces the task of designing an experiment in which most variables are held constant or are comparable across cultures.

SELF ASSESSMENT EXERCISE 2

Identify five relevant research techniques in international research.

1.5 The International Information System

The international information system is defined as the systematic and continuous gathering, analysis and reporting of data for decision-making according to Czinkota et al (2004).

These data must be:

- i. relevant
- ii. timely
- iii. flexible
- iv. accurate
- v. exhaustive
- vi. consistent
- vii. convenient

It has been discovered that the use of information system is increasing greatly especially in export field; most companies establish export complaint system.

SELF ASSESSMENT EXERCISE 3

Mention five qualities of data generated for decisions.

In which ways can information system be improved? There are three ways in which information system can be enriched, they include:

i. Environmental Scanning

It promotes a customer's information in political, social and economic affairs internationally or changes in attitudes of public institutions and private citizens, and on possible upcoming alteration.

ii. Delphi Studies

It is a means for aggregating the judgments of a number of experts who cannot come together physically, Czinkota et al (2004). This type of research clearly aims at qualitative measures by seeking a consensus from those who know rather than average responses from many people with only limited knowledge.

iii. Scenario Building

Czinkota et al (2004) believes that information obtained through environmental scanning or Delphi studies can then be used to conduct a scenario analysis. One approach involves the development of a series of plausible scenarios that are constructed from trends observed in the environment. Another method consists of formally reviewing assumptions built into existing business plans and positions. Subsequently, some of these key assumptions such as economic growth rates, import penetration, population growth and political stability can be varied by projecting variations for medium to long-term period, completely new environmental conditions can emerge. The conditions

can then be analysed for their potential, domestic and international impact on corporate strategy.



1.6 Summary

You have been thought about international business research, which is necessary for ensuring successful operations of firms in international environment. Hence, research is the key to international business success. The process and the procedure must be properly followed. Any attempt to short-cut international research will lead to a company's disaster. Constraints of time, resources and expertise are the major inhibitions to international research.



1.7 References/Further Readings/Web Resources

Czinkota, M. A., Ronkainen, I. A. & Moffett, M. H. (2004). *Fundamentals of International Business*. Mason, Ohio, USA : Thomson.

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Schwab, K. (2017). *The Fourth Industrial Revolution*. Amazon books.



1.8 Possible Answers to SAEs Answer to SAE 1

Five factors to consider when going on international research include:

- i. Market potentials
- ii. Level of Competition
- iii. Prevailing environment
- iv. Government policies
- v. Economic and social cultural conditions

Answer to SAE 2

Five relevant research techniques in international research include:

- a. Interviews
- b. Focus group
- c. Observation
- d. Surveys
- e. Experimentation

Answer to SAE 3

Data must be:

- i. relevant
- ii. timely
- iii. flexible
- iv. accurate
- v. exhaustive

UNIT 4 INTERNATIONAL MARKETING

Unit structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 International Marketing
 - 1.3.1 Target Market Selection
 - 1.3.2 Identification and Screening
 - 1.3.3 Concentration versus Diversification
 - 1.3.4 Marketing Management
 - 1.3.5 Standardisation versus Adaptation
- 1.4 Marketing Policies
 - 1.4.1 Production Policy
 - 1.4.2 Pricing Policy
 - 1.4.3 Distribution Policy
 - 1.4.4 Promotion Policy
- 1.5 Summary
- 1.6 References/Further Readings/Web Resources
- 1.7 Possible Answers to Self-Assessment Exercises



1.1 Introduction

In simple terms, marketing refers to the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchange that satisfies individual beliefs. Hence, as you can appreciate, this implies that marketing basically is talking about satisfaction on a daily basis. Companies are striving to satisfy their customers, that is why a lot of them follow their customers abroad.

You can also understand that the marketing managers in various companies on daily basis work on their task on how to satisfy their customers. He must work with his internal and external environment. You can recall the environment of the firm that it includes both internal and external. The internal environment of marketing includes the product, price, place and promotion; while the external environment includes technology, culture, and economy. Once you go international, the international factors equally affect your decision. As such, this unit focuses on strategies of marketing internationally.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss the differentiation between target market selection and marketing management from the international scene
- Analyse international marketing
- Discuss international promotional policies in international scene
- Evaluate standardisation and adaptation in international marketing.



1.3 International Marketing

You have been acquainted with the definition of marketing in Unit 1 implies that you know international marketing has international colouration wherein it is the marketing at international level as opposed to domestic marketing activities.. International marketing is about customers' satisfaction beyond the local shore in which you are operating. How can a firm going international select the target market or customers?

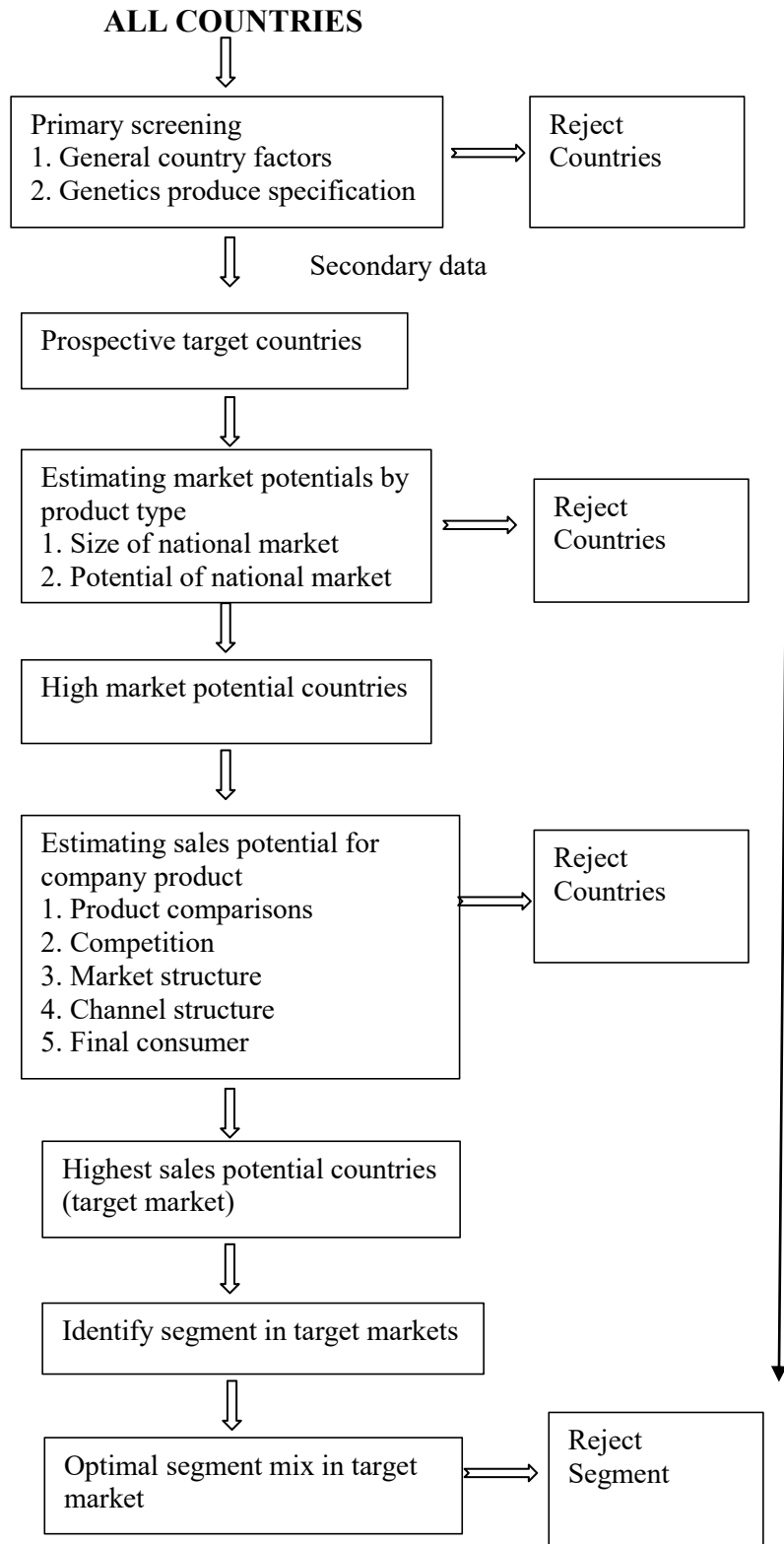
1.3.1 Target Market Selection

Target market is that segment of the market that a company focuses its attention on so that the consumers will be satisfied. In international business, when we discuss target market selection, we are looking at countries for possible target market within which the companies are willing to operate. To do this, we need to:

- i) identify potential markets for entry
- ii) expand selectively over time, across areas that are deemed attractive.
Then what does international screening involves in marketing?

1.3.2 International Screening

Identification and screening has four stages or processes. It starts with general criteria and ends with specific market analysis. Data for screening are got from secondary and primary sources.



Source: Czinkotta M. R.; Ikka, A. R. and Michael, H. M. (2004). *International Business*. Mason, Ohio USA: Southwestern Thomson, page 33.

The four processes of screening countries that will serve as target market include the followings.

1. Preliminary Screening

It relies solely on secondary data to know the general country factors either favourable or unfavourable to you and the generic product specific factor. If both are positive on your side it means you have gotten prospective target countries and if unfavourable, you reject the countries and look for a more favourable country.

2. Estimating Market Potential

Market potential is the sales in physical or monetary units that might be available to all firms in an industry during a given period under a given level of industry, marketing effort and given environmental condition.

There is the feeling of whether it is favourable or unfavourable after using the income, elasticity of demand, market audit, analogy and longitudinal analysis to measure the market. You either reject the market if unfavourable and if favourable, you proceed to what we call high market potential countries.

3. Estimate Sales Potential

After studying the market and believing that the market has prospect, there is need for estimating the sales potential of the target market. You need data to help you look at competition, market, consumer, product and channel structure. If they are favourable, you go to the next stage of referring to the target as highest sales potential control and if not, you either reject the country or look at other target markets.

4. Identifying Segment

There is need to identify the most profitable target relying mostly on primary data, if it is favourable, you proceed to optimal segment mix in target market and if not favourable, you reject segment and look for a more favourable one.

SELF ASSESSMENT EXERCISES 1

1. Give three reasons for engaging in international marketing by a firm.
2. Discuss the steps taken in choosing an international target market.

1.3.3 Concentration versus Diversification

Czinkota (2004) stated that concentration is a small number of markets while diversification is characterised by growth in a relatively large number of markets in the early stages of

international market expansion. Expansion alternatives have two options. You may concentrate in a small area i.e. a segment or you go into a broad market if the resources are available (Baack et al, 2013).

Expansion alternatives depend on the following factors.

- i. Market growth rate
- ii. Sales stability
- iii. Sales response function
- iv. Competition lead time
- v. Spillover effects
- vi. Need for product adaptation
- vii. Need for communication adaptation
- viii. Economics of scale in distribution
- ix. Extents of constraints
- x. Programme control requirement.

1.3.4 Marketing Management

Czinkota et al (2004) believes that after target markets are selected, the next step is the determination of marketing efforts at appropriate levels. A key question in international marketing concerned itself with the extent to which the elements of the marketing mix-product, price, place and distribution should be standardised. The market also faces the specific challenge of adjusting each of the mix elements in the international market place (Baack et al, 2013).

SELF ASSESSMENT EXERCISE 2

Name the four Ps of marketing in a domestic market. Are they the same in an international market?

1.3.5 Standardisation versus Adaptation

These are the factors to be considered under standardisation or adaptation.

1. Make no special provision for international market place rather, identify potential target markets and then choose products that can easily be marketed with little or no modification.
2. Adapt to local condition in every target market (multi domestic approach).

3. Incorporate differences into a regional or global strategy that will allow for local difference in implementation (globalisation approach).

Factors Affecting Adaptation

1. The market(s) targeted
2. The product and its characteristics
3. Company characteristics including factors such as resources and policy.

1.4 Marketing Policies

1.4.1 Product Policy

There are lots of factors that affect product adaptation in an international market; they are broadly divided into three.

1. Regional, Country or Local Characteristics

They may include government regulations, non-tariff barriers; customers' characteristics (expectations and preferences) purchase patterns, economic status of potential users, stages of economic development, competitive offerings, climate and geography.

2. Product Characteristics

They include, product consistency brands, function, attributes, features, method of operation or usage, durability, quality, ease of installation, maintenance, after sales services, country of origin, etc.

Product Line Management

International market product line must be local, regional and global brand.

i. Product Counterfeiting

Is a general problem worldwide which involves producing inferior products to look like the original ones? The four ways of fighting it, is through legislative action, bilateral and multinational negotiations, joint private sector action and measures by individual firms.

iii. Company Consideration

These factors include profitability, market opportunities, (e.g. market potential, product-make fit) cost of adapting, policies, (e.g. commonality, consistency) organisation resources.

SELF ASSESSMENT EXERCISE 3

Identify four ways of fighting product counterfeiting in international business

1.4.2 Pricing Policy

Pricing has to do with revenue generation; there are four categories of international pricing situation.

i. Export pricing

Are dual pricing that differentiate products that are domestic or international. In dual pricing, cost plus marginal cost methods are mostly used; while market differentiated pricing is used based on demand oriented strategy. If not carefully used, it can lead to price escalation or dumping.

ii. Foreign Market Pricing

International product pricing is when the manufacturer operation is defined by corporate objectives, costs, customer behaviour and market conditions, market structure and environmental constraints.

iii. Price Coordination

Calls for price coordination of products have increased because of the introduction of the Euro. Environmental factors will continue to affect price coordination worldwide; it is difficult to coordinate prices worldwide.

iv. Transfer Pricing

Transfer or inter-company pricing is the pricing of sales to members of corporate family. It means charging almost the same price for all products in the same industry.

1.4.2 Distribution Policy

How does the firm connect with the buyers in marketing?

You can understand that distribution is undertaking by manufacturers towards connecting the manufacturers with the buyers; it takes time for a decision to be arrived at. Distribution strategy takes into account the following.

- i. **Channel design** - The length and width of the channel employed is affected by so many factors i.e. product, market etc.
- ii. **Selection and screening of intermediaries** - You have to look for appropriate channel members.
- iii. **Managing the Channel Relationship** - Conflict arises among members because it is like a marriage; you continue to manage these members so as to reduce conflict, if conflicts are not settled, it could affect the company.

- iv. **Economic** - There has been an increase in sales on the net, companies will continue to embrace it.

SELF ASSESSMENT EXERCISE 4

Name five arrangements that aid establishment of a firm in an international business.

1.4.3 Promotional Policy

How does the firm ensure that its products are made known to target consumers? As you can expect, an international businessman must think of the most appropriate promotional mix for his products. Basically, advertising, personal selling, sales promotion and public relations are used for international business promotion.

- i. **Advertising**- Majorly, advertising decision focuses its attention on which strategy to use. The promotional messages and the organisation of the promotional programme must conform to the market being served.
- a) **Personal Selling**- Is one on one selling in international business. Industrial goods, high-priced items, require more of personal selling.
- b) **Sales Promotion** - Any method of attracting customers for more purchases apart from advertising, personal selling or publicity is sales promotion. They include, coupons, samplings, premiums, point of purchase and direct mail which are good examples of sales promotions. Any of these could be used for international marketing depending on the product and the environment.
- c) **Public Relations**. Czinkota et al (2002) argue that PR is the marketing communication function charged with executing programmes to earn public understanding and acceptance which means both internal and external communication. Foreign companies need it for more understanding i.e. the oil companies in the Niger Delta and the Niger Delta crises is a good example where PR could have assisted if well utilised.



1.6 Summary

You have been taken through the intricacies of international marketing. Relatedly, international business that involves and calls for international marketing cannot succeed except marketing activities are employed. Marketing activities involve selecting the target market and marketing management. Marketing management involves monitoring and applying the marketing mix appropriately to satisfy target consumers in the target markets.



1.7 References/Further Readings/Web Resources

Baack, B. W., Harris, E. G. & Baack, D. (2013). *International marketing*. Los Angeles, USA: SAGE Publications Inc.

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1.8 Possible Answers to SAEs

Answers to SAEs 1

Reasons for engaging in international marketing by a firm include:

- i. Expansion purpose.
- ii. Generate more customers and markets
- iii. Gain international recognition as a multinational corporation.

Steps to be taken in choosing an international target market include:

1. Preliminary Screening
2. Estimating Market Potential
3. Estimate Sales Potential
4. Identifying Segment

Answers to SAEs 2

Four Ps of marketing in a domestic market. Are they the same in an international market include:

- i. product
- ii. Price
- iii. Production
- iv. Placement

These four Ps of marketing are applicable to international marketing but not enough. These days firms also have to engage in internet marketing regarding advertising and delivery.

Answers to SAEs 3

Four ways of fighting product counterfeiting in international Business include:

- i. Product standardization
- ii. Effective distribution
- iii. Incentives for the marketing agents and distributors
- iv. Wide network of distribution by appointing many franchisees.

Answers to SAEs 4

Five arrangements that aid establishment of a firm in an international business include

- i. Franchise arrangements
- ii. Partnership agreement
- iii. Establishing distribution depots
- iv. Establishing plants
- v. Distribution agreement with firms in host countries.

UNIT 5 EXPORT AND IMPORT PRACTICES

Unit structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Export and Import
 - 1.3.1 Who Exports?
 - 1.3.2 Why Export
 - 1.3.3 Why They Don't Export
 - 1.3.4 Pitfalls and Mistakes of New Exporters
- 1.4 Locating Foreign Market
 - 1.4.1 Sources of Export Counselling
- 1.5 Payment and Financing Procedure
 - 1.5.1 Export Payment Terms
 - 1.5.2 Export Financing
- 1.6 Export Procedures
 - 1.6.1 Foreign Freight Forwarders
 - 1.6.2 Export Document
- 1.7 Summary
- 1.8 References/Further Readings/Web Resources
- 1.9 Possible Answers to Self-Assessment Exercises



1.1 Introduction

Exporting, as you know from transfer learning, involves a business way of sending your products/goods abroad for sale. This implies that you should have carried out international business research into the selected countries for the exporting. You have also been acquainted with (in Module 1, Unit 2), the fact that international trade involves both exporting and importing of goods and inclusive of services. This unit is therefore being used to discuss reasons for exporting and why a business goes international. Relatedly, it also discusses what it entails to export, import processes, professional advice from experts and also export/import documentation business.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- discuss export and import operations
- analyse locating foreign markets for exporting
- discuss payments and financing procedures
- analyse export procedures.



1.3 Export and Import

You can recall that selling goods and services outside the shores and boundaries of your country involves export operations, that is, selling your goods abroad. On the other hand, import involves purchasing of goods from outside your country and bringing them to your home country for sale in terms of business operation. The two terms are diametrically at opposing directions; selling goods abroad concerns export and buying some other goods from abroad and bringing same for business in your country refers to import.

1.3.1 Who Exports?

But which types of business are mainly into exporting?

It is generally believed that small companies are mostly involved in exporting because they do not have the money to establish companies abroad or create contacts in other countries. Nowadays, and in reality, however, both small and large companies are involved in exporting. In essence, you can appreciate the fact that a lot of companies are involved in exporting provided they are legally permitted to do so, for obvious reasons.

1.3.2 Why Companies Export

Relatedly, Companies export for the following reasons such as to:

- i. increase profit and sales;
- ii. to protect their business from being eroded;
- iii. expand the operations of their business operations
- iv. generate international image as a multinational corporation;
- v. capture more markets and appeal to international customers; and
- vi. attract foreign financing, etc.

By exporting, by implication from above, companies are likely to:

- i. serve markets where the firm has no production facilities or the local plant does not produce the firm's complete product mix.
- ii. satisfy a host of government requirements.
- iii. test foreign markets and competitions.
- iv. remain competitive in the home market
- v. meet actual or prospective customers requests for the firm to export.
- vi. off-set cyclical sales of the domestic market.
- vii. achieve additional sales, which allow the firm to use its excess production capacity to cover unit fixed costs?

- viii. extend a product's life cycle by exporting to countries where technology is less advanced.
- ix. distract foreign competitors that are in the firm's home market by entering their home markets.
- x. partake in the kind of success the firm management has seen others achieve by exporting
- xi. improve equipment utilisation rates.

SELF ASSESSMENT EXERCISE 1

Give ten (10) reasons why some companies engage in exporting.

1.3.3 Why Companies do not Export?

Can you imagine some companies do not engage in exporting operations? Reasons why some companies do not export include:

- (i) preoccupation with the home market
- (ii) reluctance to be involved in a new and unknown operation. Some known big firms in some countries give the following reasons for not engaging in international business: (i) payment and financing markets.
- (ii) locating foreign markets. (iii) export procedures.

1.3.4 Pitfalls and Mistakes of New Exporters

These include the followings.

- i. Failures to obtain qualified export counselling and develop a master international marketing plan before starting an exporting business.
- iii. Insufficient commitment by top management to overcome the initial difficulties and financial requirements of exporting.
- iiii. Insufficient care in selecting overseas distributors.
- iv. Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth.
- v. Neglecting export business when income market booms.
- vi. Failure to treat international distributors on an equal basis with domestic counterparts.
- vii. A gullible assumption that a given market technique and product will automatically be successful in all countries.
- viii. Unwillingness to modify products to meet the regulations or cultural references of other countries.

- ix. Failure to print service sale and warranty messages in local languages.
 - x. Failure to consider the use of an export management company.
- xi. Failure to consider licensing or joint venture agreements.
- xii. Failure to provide readily available servicing for the product.

1.3.5 Importing

Importers are opposite of exporters. They buy abroad and sell in the domestic markets. An importer can identify sources of outlets through:

- i. Retailers who import similar products
- ii. All agencies that can assist in importing
- iii. In the US, you can use the electronic bulletin boards of the World Trade Centre. In Nigeria you can visit websites.

In importing, you take note of customhouse brokers, who are independent businesses that handle import shipment for compensation. They act as agents for the importer once they import goods, they put them in bonded warehouses or they can abandon them or send them to another country. Every importer should take note of how customs calculate import duties and products classification.

Any importer who wants to make a success of his business must take note of the following.

- i. Disclose to the customs all foreign and financial arrangements before shipping the goods. Penalties are always high.
- ii. Ask the advice of a customhouse broker before making the transaction.
- iii. Calculate carefully the landed charges in advance.

1.4 Locating Foreign Markets

How do companies locate feasible and profitable countries to which to engage for exporting? Businessmen or firm need to go into screening of market to be able to identify which market to go into. The Unit 9 of this module, as you can recall, examined the processes involved in arriving at an appropriate international target segment. Hence, it is advisable for you to look at both internal and external markets, study them very well and arrive at an appropriate segment.

1.4.1 Sources of Export Counselling

Information about export can be got from:

- i. Trade information centre
- ii. Department of Agriculture
- iii. **Export Promotion Council**

In addition, Nigeria has some other numerous agencies where you can get your export counselling from, of which the followings are some of them.

- i. The Central Bank of Nigeria
- ii. Ministry of Foreign Affairs
- iii. Nigeria Investment Promotion Council
- iv. Nigerian Export Processing Zone Authority v. Nigeria Customs Service, etc.

1.5 Payment and Financing Procedures

1.5.1 Exports Payment Terms

You can understand that payments and financing procedures and terms are involved in exports. Generally, there are basically many kinds of payment terms, offered by exporters to foreign buyers. They are:

i. Cash in Advance

When a buyer is not well known in terms of his credit standing, he is given cash in advance. Its disadvantages are that it will tie down the buyer's capital because he needs to receive the goods and sell first before payment.

What is ordered for may not be received. Instead, the buyers prefer paying cash and collect their goods

ii. Open Account

An open account sales is offered to a reliable customer where an economy is stable, the seller takes the whole risk. The exporter's capital is tied down until payment has been received, sometimes you can use letter of credit as an alternative.

iii. Consignment

Are goods shipped to the buyer and payment is not made until goods are sold? The seller takes all the risk. Multinationals are involved in this type of sales; examples are Lever Brothers Nig. Ltd, UAC, etc.

iv. Letters of Credit

Are documents issued by the buyer's bank in which the bank promises to pay the seller a specified amount under specified conditions?

Letters of credit could be confirmed and are irrevocable.

Confirmed- It is an act of correspondent bank in the seller's country by which it agrees to honour the issuing bank's letters of credit.

Irrevocable- It is a stipulation that a letter of credit cannot be cancelled.

Air way bill- is issued by the carrier and presented as proof that shipment has been made.

Before you open a letter of credit, you as a buyer may request for a pro-forma invoice, which is seen as the exporter's formal quotation containing a description of the merchandise, price, delivery time, method of shipping, term of sale, and points of exit and entry.

Letter of credit transactions- it means the route taken by the merchandise, letter of credit and documents in a letter of credit transaction.

iv. **Documentary Drafts**

Ball et al (2002) opined that when the exporter believes that political and commercial risks are not sufficient to require a letter of credit, the exporter may agree to payment in a documentary draft basis, which is less costly to the buyer.

Export Draft- It is an unconditional order that is drawn by the seller on the buyer to pay the drafts amount on presentation or at an agreed future date and that must be paid before the buyer receives shipping document

1.5.2 Export Financing Procedure

Different countries have different payment and financing procedures, this involves the documents used in export procedures. This procedure is followed strictly before any businessman is allowed to export to any country.

Export financing are both private and public. The private sources include the followings.

- i. **Bankers Acceptance-** A time draft with maturity of less than 270 days that has been accepted by the bank in which the draft was drawn, thus becoming the accepting bank's obligation. It may be bought and sold at a discount in the financial market like other commercial papers.
- ii. **Factoring- this involves the arrangement for discounting financial documents without recourse to an account receivable.**
- iii. **Forfeiting -** Purchasing without recourse to account receivable, whose credit terms are longer than the 90 to 180 days usual in factoring; unlike factoring, political and transfer risks are borne by the forfeiter.
- iv. **Export - Import Bank-** It is a bank owned by the Federal Government that aids its citizens who engage in exports. Export- Import bank guarantees the following facilities.

Direct and intermediary loans

- a) Working capital guarantees
- b) Export credit insurance

Import-Export bank is discussed more in Module 3 Unit 5. In other countries, there are public sources of financing. For instance, in America they have public sources such as the followings.

- i. Overseas Private Investment Corporation
- ii. Foreign Sales Corporation
- iii. Foreign Trade Zone

SELF ASSESSMENT EXERCISE 2

Identify three sources of financing and exports and imports.

1.6.1 Foreign Freight Forwarders

These are special independent businessmen that handle export shipments for compensation. They are experts in this field. They offer advice in terms of markets, import and export regulations, and the best mode of transport, export packing and cargo insurance.

If you are involved in exporting, discuss two sources of your financial assistance.

1.6.2 Export Documentation

It means the documentation before exporting. Countries have different systems of documenting export procedures. Nigerian government has a complex exporting system. Of recent, the Federal Government is trying to correct the system; it is targeting 48 hours for clearing goods.

Export documents are divided into two. i. Shipping document ii. Collection document

Shipping Documents include:

Shippers Export Declaration (SED) - This document is required by the Department of Commerce to control export and supply export statistics, it contains the following.

Name and Address of the shipper and consignee. US port of exit and foreign point of unloading.
Description and Value of the goods.
Export license number and bill of lading number.

Carrier transporting the merchandise.

Export Licence- It is any export licence covering export commodities for which a validated licence is not required, no formal application is required. However, for strategic materials and all shipments to unfriendly countries, validated export licence are required.

- iii. **Export Bill of Lading-** It serves as a contract for carriage between the shippers and the carrier, a receipt from the carrier for the goods shipped and a certificate of ownership.
- iv. **Insurance Certificate-** It is the evidence that the shipment is insured against loss or damage while in transit.
- v. **Automatic Export System (AES)** It is a one-stop export filing system- a single information collection and processing centre for the electronic filling of the export shipments documentation required by the US government.

Collection documents include the followings.

- i. **Commercial Invoices-** They are just like domestic invoice with additional information such as origin of goods, export packing marks and a string attached that goods will not be diverted to another country.
Consular Invoice- These are export forms purchased from the consulate written in the official language of the country.
- iii. **Certificate of Origin-** Some countries like Nigeria require this to know from which country the goods are coming.
- iv. **Inspection Certificate-** When goods are exported in containers, lighter abroad ship (Lash), RoRo (Roll on Roll off) and freights are used to move goods from the country of purchase to the buyer country.

SELF ASSESSMENT EXERCISE 3

Identify seven documents in foreign trade.



1.7 Summary

From the above discussions, you have understood the necessary procedures, payments, and financing, and documentation in foreign trade. Export is necessary for a country so that the balance of trade will be favourable for the country. By exporting, the economy of a country will improve. You must locate new markets and you need counselling before exporting, you must always follow export procedures and export documents must be used for export to be successful. Any mistake in arriving at export target, your business is likely to suffer for it.



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1.9 Possible Answers to SAEs

Answer to SAE 1

Give ten (10) reasons why some companies engage in exporting include the following.

- i. Serve markets where the firm has no production facilities or the local plant does not produce the firm's complete product mix.
- ii. Satisfy a host of government requirements.
- iii. Test foreign markets and competitions.
- iv. Remain competitive in the home market
- v. Meet actual or prospective customers requests for the firm to export.
- vi. Obliterate problems of off-set cyclical sales of the domestic market.
- vii. Achieve additional sales, which allow the firm to use its excess production capacity to cover unit fixed costs?
- viii. Extend a product's life cycle by exporting to countries where technology is less advanced.
- ix. Distract foreign competitors that are in the firms home market by entering their home markets.
- x. Partake in the kind of success the firm management has seen others achieve by exporting
- xi. Improve equipment utilisation rates.

Answer to SAE 2

Three sources of financing exports and imports include the following.

- i. Bankers Acceptance
 - ii. Factoring
 - iii. Forfeiting
 - iv. Export - Import Bank

Answer to SAE 3

Five documents in foreign trade are as listed below.

- a. Shippers Export Declaration (SED)
- b. Export Licence-
- c. Export Bill of Lading
- d. Insurance Certificate
- Commercial Invoices
- e. Consular Invoice
- f. Certificate of Origin
- g. Inspection Certificate

MODULE 3

UNIT 1 HUMAN RESOURCE MANAGEMENT AND INTERNATIONAL BUSINESS

- Unit 1 Human Resources Management and International Business
- Unit 2 International Accounting and Taxation
- Unit 3 International Services
- Unit 4 Product Policy Decision in International Business
- Unit 5 Nigerian Organisations and International Business

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Human Resources Management
- 1.4 Cultural or Regional Differences in Labour Condition
 - 1.4.1 Japan, Jobs-For-Life Culture Disappearing
 - 1.4.2 The Huge German-Polish Wage Gap
 - 1.4.3 High Unemployment Rate in Nigeria
 - 1.4.4 Minimum Wage in Nigeria
- 1.5 Staffing Practices
 - 1.5.1 Sources of Managers
 - 1.5.2 Selection and Training
 - 1.5.3 Expatriate Staff
 - 1.5.4 Women Staff
- 1.6 Compensation Methods
 - 1.6.1 Salaries
 - 1.6.2 Allowances
 - 1.6.3 Bonuses
- 1.7 Summary
- 1.8 References/Further Readings/Web Resources
- 1.9 Possible Answers to Self-Assessment Exercises



1.1 Introduction

You can appreciate the fact that recruitment of workers for an international job is a serious process because it is different from recruiting for the firm within the home country. Therefore, any expatriate manager employed to manage a business in Nigeria, for instance, must understand the culture and people of Nigeria. Hence, this unit examines human resources that cut across the boundary of a particular country. In the course of the discuss, you been acquainted with necessary dimensions of international human resources.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss the differences in regional and cultural labour practices and its relationship with international business Analyse the practices of selection of staff internationally
- Evaluate various methods of compensation in international human resources management.



1.3 Human Resources Management

In order to ensure effective human resources management at international level, you have to understand the following intricacies.

- i. Estimated work force needs
- ii. Recruitment and selection
- iii. Training and development
- iv. Nationalism
- v. Compensation
- vi. Discipline
- vii. Appointment termination

Without adequate knowledge of the country you are going into, it will be difficult to perform the above stated functions.

Hence, to select a manager for a multinational company may be easier than managing the company itself. Basically, for a foreign manager to manage a corporation well, he needs to know all the external factors like law, politics, culture etc. and relate them well with human resources management functions like staff selection, motivation, compensation, discipline, etc., so that he can succeed.

In general, human resources have to do with how human beings as being used as input in an organisational organizational operations so that good results are achieved.

What are the cultural difference and human resources scenario in different countries?

1.4. Cultural or Regional Differences in Labour Condition

If you look critically at different countries in the world, you will appreciate the fact that there are differences in employment conditions. We are going to consider some areas for understanding of the valuable knowledge in terms of labour condition and compare them with what is obtainable in the Nigerian environment. For instance, situation has been changing in Nigeria about women in organizational employment. Also, a critical area is the Sharia practice in some Northern States

in respect of male doctors and female patients or vice versa. All these are cultural or regional differences in labour conditions in Nigeria.

1.4.1 Japan's Jobs-For-Life Culture Disappearing

Until a few years ago, it is a well-known cultural practice in Japan that once employed; you will be on the job till you die. But today, things have changed. For example, Toyota now regularly employs staff on contract basis which it never practised in the time past. They do not mind now to employ a foreigner unlike before. Now, merit rather than seniority is the yardstick for promotion or position. Age does not matter now in job hierarchy. This means, a younger or more brilliant person might be placed over an older person who had spent more years in the company. This new method of doing things is having psychological effects on certain category of workers. As a matter of fact, it has caused a number of suicides and mental breakdowns.

But what about the situation in Nigeria?

In Nigeria, some categories of jobs are being outsourced now in place of permanent employment. Examples of these outsourced jobs are messengers, typists, drivers, secretaries, etc. In Japan as well, certain categories of jobs are outsourced permanently.

The employments have moved from being for lifetime durations to being on part time and this is becoming the order of the day. Some jobs are now even being outsourced. Nigeria has borrowed this system especially for those whose jobs are not specialised. In Japan jobs like accounting, information technology, marketing, personnel management, procurement and training are being outsourced.

In respect of Japans Birth Rate Drop-Effects, the birth rate is going down because of birth control. In essence, if the population is reducing, it means more jobs will be available. Some writers believe that Japan is worried about meeting future pension liabilities on the basis of current projections. This means the percentage of pensioners is far higher than those who are currently engaged at work. This will not augur well for the economy and development of Japan.

1.4.2 The Huge German-Polish Wage Gap

Although Germany and Poland share boundaries, yet there is a huge wage gap between the two countries. This has encouraged polish citizens to cross into Germany to work either legally or illegally. In Germany, the pay of an average worker is reasonably high compare to what obtains in Poland.

The situation between Germany and Poland can be compared somehow to Nigerian Federal Civil Service and State Civil Services.

You can appreciate the fact that there is a wide gulf between the wages and salaries in Federal Civil Service and State Civil Service. For example, a Grade Level 7 Officer earns less, say, in Niger State compared to the salary of Level Officer in the Federal Civil Service, and this is the scenario in other states of the federation. The Federal Government has been trying to narrow this gap by introducing so many salary structures at different times over the years. By so doing, workers are encouraged to remain where they are.

The salary structure in the private sector organizations is a different ball game; workers in such entities earn significantly higher salaries.

But what about the university system in Nigeria?

In the Nigerian universities, either State or Federal, the workers earn the same salary but not comparable to the private universities where the salary structure can be different.

1.4.3 High Unemployment Rate in Nigeria

You are aware that it is no more news that a lot of graduates from Nigerian universities are unemployed coupled with the unemployment among the unskilled labourers. This issue has led to exploitation of Nigerians by various employers of labour who pay paltry wages.

By implication, Nigeria has become a cheap labour country. Most Indian companies operating in Nigeria, for instance, are known for taking advantage of this problem by exploiting their workers in the country; paying them paltry amount of wages in their factories. However, Nigeria Labour Congress (NLC) is up and doing in this area so that the situation could be addressed. Casualisation of even skilled workers, especially at the ports has been addressed by NLC.

SELF ASSESSMENT EXERCISE 1

| |
|--|
| List five areas that you feel could improve labour practices in Nigeria. |
|--|

1.4.4 Minimum Wage in Nigeria

In 1987, a controversial decision was taken when the government announced a major relaxation of the nation's minimum wage laws. Under new regulations, all companies with fewer than 500 employees would be exempted from minimum wage requirements. Previously, only companies with fewer than 50 employees have been exempted. After concerted and vociferous protests from labour unions and indications of widespread abuse by employees, the government reversed its stance and reinstated the original provisions. The Federal government now pegged the minimum wage a Nigerian should earn at N7, 500; some state governments could not afford this. To make matters worse for the states, the federal government instituted a consolidated salary structure for its workers. This greatly increased the disparity between the salary of a state worker and a federal worker. International businessmen should have this at the back of their minds when coming to do business in Nigeria.

Assuming you are hired by a foreign company as their human resources (HR) manager, how will treat the salary structure issue?

The HR manager of international company in Nigeria should endeavour to pay the same salary for the Nigerian employees, that is, the equivalent of the Naira value in relation to the international salary of the foreign company; that which has been determined by the company's head office.

In actual fact, some HR managers of foreign companies in Nigeria are actually paying such Naira equivalent salaries to the Nigerian employees particularly in multinational companies (MNCs) as confirmed by samples of such workers.

1.5 Staffing practices

Do you expect that there be differences in staffing practices in countries?

Employing good staff for your company may involve employing not just local people, but also foreigners, that is, expatriates.

The good thing is that opportunities to work outside your country are increasing on a daily basis. One thing about working abroad is that you must be:

- i. bicultural
- ii. knowledgeable in business practices in the home country
- iii. knowledgeable in business practices and customers care in the host country
- iv. able to speak the language of your host country.

1.5.1 Sources of Managers

There are three major sources of managers: home country, host country and third country.

I. Home Country

International corporations such as Chevron Oil Plc, Mobil Oil Plc prefer using managers from their home countries. This is because they are familiar with their own professionals and know their skills. In situation where the host nationals are unavailable, they send some selected key staff for training at their international headquarters/home country, who will later come back to host country to train the local staff.

Some of international corporations equally source for staff from home countries so that they can come and manage strategic offices in the host countries. Headquarters representatives can equally be got from the home country to represent the international corporation.

II. Host Country

Managers can be employed from the host country. They are employed for the advantage that they are familiar with the local customs, culture and language. Initial cost of employment is always low. Managers in

host countries may be unaware of the home country policies and practices and if care is not taken, there may be communication gap between the home country and the host country. And this may bring policy sabotage and cross-purposes which may affect the company badly.

But all this can be eliminated if there is good communication and interaction between the home and host managers.

III. Third Country

This is when managers can be sourced from other countries apart from the host and home countries. An example that readily comes to mind is that of an international corporation in Nigeria with headquarters in the US but which employed a Ghanaian as a manager. The Ghanaian is a third country manager.

1.5.2 Selection and Training

Selection and training of managers depend on whether they are from home, host or third country. How does companies select and train their employees?

I. Home Country

You select staff from your country, train and send them abroad. They are encouraged to study and learn the language of host country. This type of managers is likely to have family problems as a result of living apart from their families.

II. Host Country

This could be done in two ways:

- i. host country nationals hired in the home country.
- ii. host country nationals hired in the host country.

III. Third Country

Why do international companies employ workers from outside host or home country?

Hiring personnel outside host or home country: The benefit is that they can be employed on lower wages; it is prevalent in developing countries.

Employing from third country will depend on the followings.

- i. **Host country attitude-** this is the attitude of the host country to managers from third country.
- ii. **Generalisation difficulty-** because of the similarities in culture or nationalisation, what most countries do is to have workers based on ability and experience rather than race or citizenship.

1.5.3 Expatriate Staff

An expatriate is a person living outside of his or her own country of citizenship. These sets of people are employed for international business. Basically, expatriates have some problems, these include:

- i. In relation to their family, the believe is that nine out of 10 expatriates are failure in family related; their children suffer a lot because of mobility.
- ii. Not having family in one place.
- iii. Inability to visit family regularly.

1.5.4 Women Staff

In the US, for instance, it has been observed that majority of students are women. Naturally, this has resulted into having a large percentage of women at the work-place. And they are becoming more successful at work.

But what about the Situation in Nigeria?

In Nigeria, the situation is somehow the same; there has been a high increase in women enrolment in higher institutions. More women are now in business, banking, politics, etc.

Before now, women were seen in Nigeria as those whose education would end in the kitchen. But the situation has changed now. Women are found aplenty in all the professions. Women are being encouraged in Nigeria to go into education, business, and employment. There is a Ministry of Women Affairs in charge of such drives, and women are given opportunities in politics. Education, which naturally brings enlightenment has broken down the proverbial glass ceiling which used to restrict women in the past in the country.

SELF-ASSESSMENT EXERCISES 2

- 1. Identify the three distinct sources of employment of managers by multinational companies in international business.
- 2. Give five advantages for hiring workers from the host country of an international company.

1.6 Compensation methods

What are the sources of compensation to the workers?

Compensation has always been a major problem in organisations. Paying appropriate wages for expatriate staff and local staff is problematic for organisations. What some organisations do is to pay the same basic salary for both categories of staff but different allowances.

1.6.1 Salaries

Expatriate and domestic staff workers are mostly paid the same salaries

in most countries worldwide; the third country managers are equally treated in the same way. However, allowances may differ so that an expatriate will not fall behind in this regard.

1.6.2 Allowances

Allowances are special payments for expatriates to compensate them and also to cushion the extra cost they must incur to live in the host country. The following allowances are applicable.

- i. Housing allowance;
- ii. Cost-of-living allowance is based on differences in the prices of food, utilities, transport, entertainment, clothing, personal services and medical expenses oversea, compared to the prices paid for these items in the home country;
- iii. Allowance for tax differentials;
- iv. Education allowance; and
- v. Moving and orientation allowances.

SELF ASSESSMENT EXERCISE 3

Mention five reasons for paying adequate salaries and allowances in international business operations.

1.6.3 Bonuses

These are compensation payments in addition to basic salary and allowances paid to expatriates because of hardship, inconveniences or hazards. They may include:

- i. oversea premium
- ii. contract termination payments
- iii. home leave.



1.7 Summary

You have been acquainted, in this study unit, with the different practices in recruitment \of managers for international companies (multinational companies) in international business. You have learned ad understood that recruitment is done from three sources such as home country, host country and third country. You have also appreciated that good salaries, allowances and bonuses are paid expatriates with the aim of encouraging them to stay and work in different environment. International companies must be a careful in selection process of managers, which will involve a careful study of the problems associated with human resources management of various countries. The scenario in Nigeria, as you have been acquainted with from the discussions in this unit in relation to labour practices, which affect the welfare of the workers.



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1.8 Possible Answers to SAEs

Answer to SAE 1

Five areas that you feel could improve labour practices in Nigeria include the follow.

- i) Bridging the gaps in salary structures between federal and state services;
- ii) Promulgation of appropriate laws banning casualization of workers;
- iii) Effective enforcement of labour laws against discrimination;
- iv) Effective supervision through constant visitation to foreign factories;
- v) Bringing to book errant companies regarding breaching of labour laws.

Answer to SAE 2

a) Three distinct sources of employment of managers by multinational companies in international business are given below.

1. Home country
2. Host country
3. Third country

b) Five advantages for hiring workers from the host country of an international company include the following..

- i. Guarantee harmony operations
- ii. Payment of low salaries
- iii. Access to cheap labour
- iv. Solve the issue of language barrier between the company and host community
- v. Ensures acceptance of the company's operations by the host community.

Answer to SAE 3

Five reasons for paying adequate salaries and allowances in international business operations include the following.

- i. To ensure cooperative attitude from the workers.
- ii. Adequate compensation for the workers' efforts
- iii. To cater for their cost of living.
- iv. Ensure that they identify with operational objectives of the company.
- v. To enhance their performance and productivity.

UNIT 2 INTERNATIONAL ACCOUNTING AND TAXATION

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 International Accounting Diversity
 - 1.4 Principal Accounting Differences Across Countries
 - 1.4.1 Origins of Differences
 - 1.4.2 Classifications System & Differences
 - 1.4.3 The Issues for Accounting Differences
 - 1.4.4 The Issues
 - 1.5 The Process of Accounting Standardisation
 - 1.6 International Taxation
 - 1.6.1 Tax Jurisdiction
 - 1.6.2 Types of Taxes
 - 1.6.3 Income Categories and Taxation
 - 1.7 Summary
 - 1.8 References/Further Readings/Web Resources
- 1.9 Possible Answers to SAEs



1.1 Introduction

You do know that keeping transaction and financial records at international level is not the same in different countries. Therefore, accounting system and taxation differ from country to country. This is because of these, some countries find it difficult to present accounting information in different ways to different countries. So, what about harmonization of accounting standards on global level? International Accounting Standards Committee (IASC) has been pursuing a goal of single accounting system for the whole world. The goal is that investors will be willing to invest in certain nations if their companies' financial reports are more transparent and reliable.

Many countries also have system of accounting standards, just as Nigeria. The International Accounting Standard Board based in London, England, and exists to achieve international harmonisation of accounting principles. Thus, this unit examines such international accounting systems.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss accounting practices across countries of the world
- Analyse the differences in accounting practices across countries and how such differences affect firms in international markets
- Discuss areas of accounting that should constitute problems or success in coming years

- Analyse the philosophies of taxation and its effect on domestic and foreign market.



1.3 International Accounting Diversity

You can understand that it is obvious that accounting principles differ, but in itself it is not a problem. The major problem is the distortion that may be introduced by lenders, investors or government policy makers.

| | ECONOMIC SITUATION OF THE IDENTICAL | |
|----------------------|---|--|
| ACCOUNTING TREATMENT | FORMS <u>SIMILAR</u> | DISSIMILAR |
| SIMILAR | A Logical practice. Results are comparable | B May/may not be logical. Results may/may not be comparable |
| DISSIMILAR | C Illogical practice. Results are not comparable | D Logical Practice. Results may not be comparable. |

Figure 3.3.1: Taxonomy of Different scenarios on Accounting Diversity.

Source: Adopted from: Czinkotta, M. A. & Michael, H. M (2004) International Business, Sixth Edition., USA, Southwestern Thompson Learning.

Accounting diversity can be traced to when a firm that is either similar or dissimilar is operating similar or dissimilar accounting system. See the diagram above.

BOX A

The cell A indicates similar firms operating similar accounting systems compared within these companies will be logical in practice and easily interpreted.

BOX B

The cell B indicates similar firms among a dissimilar accounting system. Results in terms of comparison have the probability of either being or not being comparable. The accounting system may or may not be logical.

BOX C

The cell C is indicative of firms that are dissimilar yet their accounting systems are similar. The practice in this type of firm is illogical i.e. one may not be able to compare their results.

BOX D

The cell D indicates different firms with different accounting practices, though logical, but their result are not comparable.

But what are the effects of accounting diversity in international business?

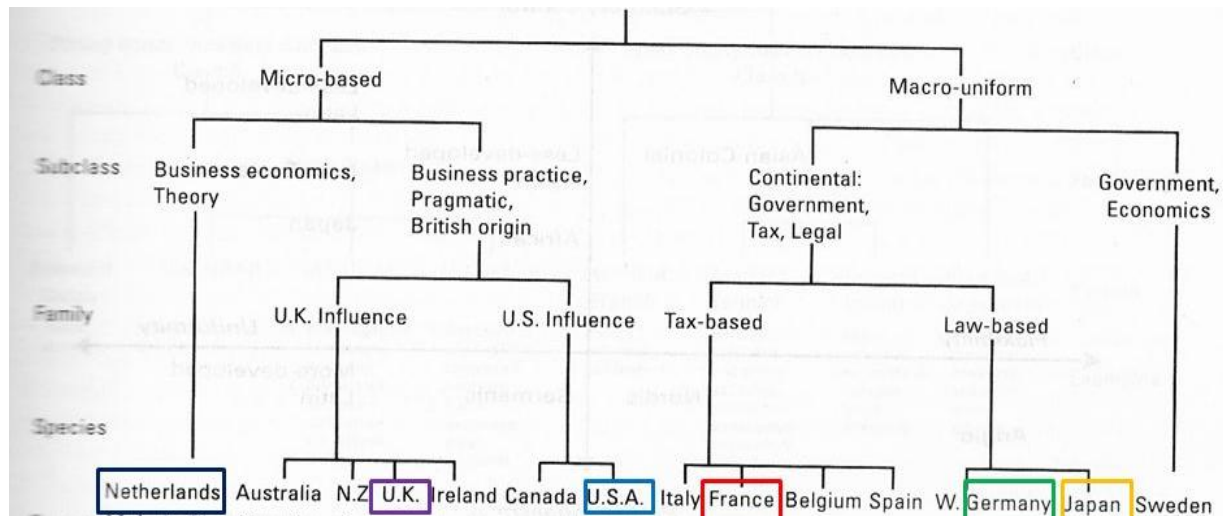
1.4 Principal Accounting Differences Across Countries

It has been observed that international accounting diversity can lead to any of the following problems in international business.

- (i) Poor or improper business decision-making
- (ii) May hinder the ability of a firm or enterprise to raise capital in different or foreign markets.
- (iii) May hinder or prevent a firm from monitoring competitive factors across firms, industries and countries.

NOBES' CLASSIFICATION OF NATIONAL ACCOUNTING SYSTEM

Financial Reporting Practices



Source: Adopted from: Czinkotta, M. A. & Michael, H. M (2004) International Business, Sixth Edition., USA, Southwestern Thompson Learning.

SELF ASSESSMENT EXERCISE 1

Identify three problems of accounting diversity in an international business.

1.4.1 Origin of Difference

The pertinent question is. What is responsible for the differences?

Accounting practices in the world is linked to people, places and events.

In Nigeria, for instance, the accounting system is structured after the British accounting system. Accounting practice looks at the users of this accounting information, i.e., investors, lenders and governments. From the above diagram (Fig. 3.3.2), one can vividly see the origin of the difference in accounting; for example the accounting system of Italy differs from that of Ireland. This is because

the Ireland accounting system is UK-based while that of Italy is tax- based. Also, accounting system of Ireland is micro based while that of Italy is macro uniform.

1.4.2 Classification of System & Differences

The above diagram of NOBES divided the accounting system into two basic systems of micro based and macro uniform.

- a) **Micro based** is sub-divided into Business, Economic Theory, Business Practice and Pragmatic British Origin.
- b) **Macro uniform** is subdivided into Continental, Government Tax, Legal and Government Economics.

1.4.3 The Issues for Accounting Differences

Different accounting system means markets must be segmented so as to enable firms and companies understand the accounting information. It therefore means accountants will continue to do the job of interpreting accounting information, being marketers and also bookkeepers.

The following are accounting differences across countries. i. Accounting for Research and Development Expenses

It is believed that research and development accounting needs to take note of costs so that it can be spread across so that profit will be assured to be made in future.

ii. Accounting for Fixed Assets

iii. Inventory Accounting Treatment

These include use of first-in first-out method and average cost system in dealing with inventory.

iv. Capitalising or Expenses Leases v. Pension Plan Accounting

vi. Accounting for Income Taxes

vii. Foreign Currency Translation

viii. Accounting for Mergers and Acquisition

ix. Consolidation of Equity Securities Holdings.

1.5 The Process of Accounting Standardisation

Until 1973, a Committee of Certified Public Accountants (CPAs) established accounting principles in the United States. CPAs are accountants licensed by their state governments on the basis of educational background, a rigorous certification examination and in most jurisdictions, relevant practical work experience.

What happened after 1973?

In 1973, the seven members Financial Accounting Standards Board was created as an independent standard-setting organisation. Regulations for auditors are promulgated by the American Institute of Certified Public Accountants. United States companies, whose stocks or bonds are traded publicly, must conform to the rules set by the Securities and Exchange Commission (SEC), a Federal Government agency. Tax laws and regulations are encountered at the federal level by the Internal Revenue Services (IRS) and at the local level by the state and municipal government agencies. Many countries other than the United States also have system of accounting standards. The International Accounting Standards Board based in London, England, exists to achieve international harmonisation of accounting principles (Czinkotta & Michael, 2004).

1.6 International Taxation

You may not understand international taxation, except you understand what tax is in our home country.

Basically, taxation is a system of raising money to finance government activities. In Nigeria just like other countries, all governments require payment of money-taxes-from their citizens. Government uses tax revenues to pay soldiers and police, to build dams and roads, to operate schools and hospitals, to provide food for the poor and medical care for the elderly and for other purposes. Without taxes to fund its activities, government will not be able to function.

Throughout history, people have debated the amount and kinds of taxes that a government should impose on her citizens. Unpopular taxes have caused public protests, riots, and even revolutions. In political campaigns, a candidate's views on taxation may partly determine his popularity with voters.

Taxation is the most important source of revenue for modern governments, typically accounting for 90 percent or more of their income. The remainder comes from borrowing and from charging fees or services. Countries differ considerably in the amount of taxes they collect. In the United States, about 30 percent of the gross domestic product (GDP) went for tax payments in 2000. The 30 percent figure is

relatively low from a historical standpoint. As a result of a new round of tax cuts in 2003, the tax percentage share of GDP was expected to be

lower than at any time since 1959 when many major government programmes, including medicare, did not exist in Canada. About 35 percent of the country's gross domestic product goes for taxes. In France, the figure is 45 percent and in Sweden it is 51 percent.

In addition to using taxation to raise money, government may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups.

Taxation can redistribute a society's wealth by imposing a heavier tax burden on one group in order to fund services for another. Also, some economists consider taxation an important tool for maintaining the stability of a country's economy (Czinkotta & Michael, 2004).

SELF ASSESSMENT EXERCISE 2

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| What are the uses of taxes to a country? |
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1.6.1 Tax Jurisdiction

Czinkotta et al (2002) believes that there are two approaches to international taxation.

The first is the residential approach to international taxation which taxes the international income of its residents without regard to where the income is earned. The second is the territorial approach to transactional income, which taxes all parties, regardless of country of residence, within its territorial jurisdiction.

1.6.2 Tax Types

You can ask yourself; Is taxation the same even in a given country? Taxes are generally divided into direct and indirect taxes. Direct tax is calculated on actual income of individuals or a company's income. Indirect tax includes such taxes as sales tax, tariffs, and value added tax.

A broader classification of tax types includes the following.

- i. Individual income tax
- ii. Corporate income tax
- iii. Payroll
- iv. Consumption taxes which include
 - v. General sales tax
 - vi. Excise tax
 - vii. Value added tax
 - viii. Tariff
- ix. Property tax
- x. Estate, inheritance, and gift taxes
- xi. Other taxes include poll tax.

SELF ASSESSMENT EXERCISE 3

Are you a civil servant or a salaried worker? Name the taxes you pay to government.

1.6.3 Income Categories And Taxation

There are three primary methods used for the transfer of funds across tax jurisdictions.

- i. **Royalties-** Are under license for the use of intangible assets such as patents, designs, trademarks, techniques or copyrights.
- ii. **Interests-** Are the payments for the use of capital loan for the financing of normal business activity.
- iii. **Dividends-** are income paid or deemed paid to the shareholders of the corporation from the residual earning of operations.



1.7 Summary

You have been acquainted, in this study unit, with the fact that accounting system worldwide differs but International Accounting Standard Board is charged with the responsibility of harmonising accounting standards worldwide. Most importantly, this accounting system from country to country must be studied by the international businessman before going into a new country.

You have also appreciated the fact that just like accounting, taxes are sources of revenues for government. Tax is not charged by individuals or firms but by government on the government and corporate workers, individuals and corporate entities.

These two must be studied and examined, to see what area concern you as an international businessman.



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1.8 Possible Answers to SAEs

Answer to SAE 1

Three problems of accounting diversity in an international business.

- (i) Poor or improper business decision-making
- (ii) May hinder the ability of a firm or enterprise to raise capital in different or foreign markets.
- (iii) May hinder or prevent a firm from monitoring competitive factors across firms, industries and countries.

Answer to SAE 2

Uses of taxes in my country include the following.

1. government activities.
2. Governments require payment of emoluments to workers
3. Government uses tax revenues to maintain internal security.
4. Government needs to keep armed forces in place by maintaining their facilities and paying the salaries of the personnel.
5. Build infrastructures such as dams and roads, schools and hospitals, etc

Answer to SAE 3

Forms of taxes being paid by workers include the following.

- i. Personal income taxⁱ
- ii. Consumption taxes which include
- iii. Property tax
- iv. Estate, inheritance, and gift taxes

UNIT 3 INTERNATIONAL SERVICES

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Differences between Services and Products
 - 1.3.1 Typical International Services
 - 1.3.2 Link Between Services and Goods
 - 1.3.3 Stand-Alone Services
 - 1.3.4 Role of Services
- 1.4 The Role of Global Services in the World Economy
- 1.5 Global Transformation in the Service Sector
- 1.6 Problems in International Service Trade
 - 1.6.1 Data Collection Problem
 - 1.6.2 Global Regulations of Services
- 1.7 Services and E-Commerce
- 1.8 Offering Service Internationally & Success Indications
 - 1.8.1 Going into International Services
 - 1.8.2 Strategic Indications
- 1.9 Summary
- 1.10 References/Further Readings/Web Resources
- 1.11 Possible Answers to SAEs



1.1 Introduction

You can recall, from transfer learning, that international exchanges in goods cannot take place without allied services to facilitate them. Hence, services are integral part of world trade serving as links between various parts of the world. The links between services and goods are essential. In essence, service and goods go hand in hand. Services play a very great role in the world economy. Nevertheless, services have some problems associated with delivery, especially across borders. Types of international services business will be discussed in this study unit.



1.2 Learning Outcomes (LOs)

- Discuss the services of international business
- Analyse the role of service in international business
- Evaluate the complex nature of international trade services to goods
- Discuss the stand-alone services and how they have become very important to world trade

- Analyse competitive advantage of firms in the service sector.

- Evaluate the basis used in making international business in services



1.3 Difference between Services and Products

You can appreciate the fact that service is different from goods; the latter being in physical form while the form cannot be seen or touched. Therefore, service is seen as any act or performance that one party can offer to another and does not result in the ownership of anything, and its production may or may not be tied to a physical product. How do we differentiate between goods and services?

To differentiate the two therefore involves the following consideration would serve.

A good is an object, a device, or a thing while a service is a deed, a performance, or an effort made.

It is observed that service firms do not have products in the form of reproduced solutions to customers' problems; they have processes as solutions to such problems. Service is said to be the fastest growing sector in the world trade. The service sector is becoming a global phenomenon.

1.3.1 Typical International Services

What are the examples of international services?

The following are the commonly practiced international services:

- i. Construction, design and engineering services
- ii. Insurance services
- iii. Communication services
- iv. Teaching services
- v. Consulting services
- vi. Tourism

1.3.2 Link between Services and Goods

What is the relationship between services and goods?

Goods are products which are offered for sale. One interesting aspect is that some goods cannot be sold without accompanying them with service. For instance, a purchase of aircraft, which is a good (product), is most times followed with service like training of personnel, maintenance, and continuous technological update.

The link between service and goods can be demonstrated by aircraft manufacturers and their customers, who are in most cases airlines.

Just as goods are accompanied with service for customers satisfaction, so also is service not complete until a product is used satisfactorily as in the case of the airline. In essence, physical goods are used for service provision.

For instance, an airline that provides transport service has a plane as a product, how good the plane is, will have positive or negative effect on service provision. As passengers board the plane, another physical product is given to them in form of food and drinks to make their flight enjoyable. This is complementary service. It is given to ensure satisfaction and future patronage. In essence, service and goods complement each other to customers satisfaction.

SELF ASSESSMENT EXERCISE 1

Give examples of the complementarity of products and services.

1.3.3 Stand Alone Service

- Service mix is divided into six categories as listed below.
- i. Pure tangible goods.
 - ii. Tangible goods with accompanying service e.g. computer and installation service.
 - iii. Hybrid-offering with equal parts of service and goods i.e. patronising restaurant for food and service.
 - iv. Major service with accompanying minor goods and services, e.g. travelling in a plane and being served with food.
 - v. Pure service- This is purely services i.e. a psychotherapist.

The fifth division of service, which is pure service, is what you learn here and to know more about it, you must look at some basic characteristics.

- (a) **Intangible-** It means service that can't be seen, tested, felt, learned or smelled before they are bought. To succeed in selling this type of service, you need to know one of the following marketing tools.
 - i. Place

- ii. People
- iii. Equipment
- iv. Communication material
- v. Symbols
- vi. Price

(b) Variability- Service provision is done by different people even if they are working for the same organisation where what they are provided brings about variability in service provision. These three areas of service provision may reduce variability, if seriously explored.

- i. Investing in goods, hiring and training procedures
- ii. Standardising the service performance process throughout the organisation
- iii. Monitoring customer satisfaction.

(c) Perishable- Service cannot be stored. For instance, a plane that takes off with 10 empty seats cannot be redeemed or a hotelier who could not get a guest in a room for the previous night cannot regain such loss. The solution is to improve on his marketing strategy. This is where the law of demand and supply comes in.
In demand-

- i. You differentiate pricing
- ii. Cultivate non-peak demand
- iii. Develop complementary service
- iv. Reservation system should be developed. In Supply-
 - i. Part time worker should be used for peak period.
 - ii. Introduce peak time efficiency.
 - iii. Increase consumers' participation.
 - iv. Shared service can be provided.
 - v. Develop facilities for future expansion.

- (d) **Inseparability-** The provider of service and the service itself is seen as same i.e. a cashier in a bank attending to a customer rudely is seen as the bank, that is, and he is equated with the bank.

SELF ASSESSMENT EXERCISE 2

Discuss four basic characteristics of a service as differentiated from a product.

1.3.4 The Role of Service

What is the importance of services in the economy?

Service, be it in Nigerian economy or any other country has been able to:

- i. create jobs
- ii. Enhance the operations of the productive sector of the economy
- iii. provide increasing service worldwide
- iv. Provide means of entertainment
- v. Provide revenue for the government, etc.

1.4 The Role of Global Services in the World Economy

What is the role of services in the global economy?

In the world economy, service provision worldwide has two basic areas that have impacted the world economy.

- i. There has been a rise in service sector globally, as such; some economies GDP have improved due to service provision. For instance in Argentina it accounts for 65 percent GDP, 64percent in Mexico and 65 percent in South Africa.
- ii. A lot of economies are shifting away from traditional economic development pattern and are concentrating on developing strong service sector. Nigeria has even created a ministry for tourism, to encourage service provision.

1.5 Global Transformation in the Service Sector

What has become of service provision in recent times around the world?

Service provision worldwide has increased tremendously. There are basically two factors that have led to the global transformation in the service sector.

These factors include:

1. **Technology.** When we talk about technology, computers come into mind, for instance, car designs that were done manually are being done by computers now. This is a development in the service provision. Technology has equally reduced the cost of communication. Service

provision is increasing without the presence of human being i.e. banking service with automatic teller machine. This equally has led to growth in service provision worldwide.

The growth in websites has also positively impacted corporate organisations. Distance and barriers have been removed. A customer in Japan and Nigeria transacting business need not worry about distance because technology has removed that barrier.

2. **Environment.** In this situation, regulation and deregulation have increased the chances of service provision worldwide.
 - i. Reduction in government regulation, which has brought about deregulation, has given rise to service provision.
 - ii. Deregulation in the transport sector has given rise to increase in service worldwide.
 - iii. Regulation of service industries by service groups is another reason.

1.6 Problems in International Service Trade

There are basically two problem areas of international service trade. They include data collection problem and global regulation services

1.6.1 Data Collection Problem

It is difficult getting information on people who provide service worldwide. An example is an Irish citizen working for a Canadian financial consulting firm in Sweden advising an Israeli citizen living in India on management of funds deposited in a Swiss bank. It may not be easy recording and keeping business information on this Israeli citizen.

1.6.2 Global Regulation of Services

It is equally divided into two:

- i. Barriers to entry and
- ii. Problem of performing services abroad.

Barriers to entry are always explained by countries with reference to national security and economic security. The host country may create barriers based on protecting the infant industries.

Another area of global regulation of services is performing services abroad. Once a service provider has access to a local market, he is faced with the problem of discriminating and non-discriminating regulations. These regulations hinder service providers to penetrate some markets. General agreement on trade on service (GATS) in 1995 came up to regulate services worldwide. This is similar to GATT.

SELF ASSESSMENT EXERCISE 3

Identify areas of difficulty a Nigerian may face in exporting his service outside this country.

1.7 Service and E-Commerce

Is there any relationship between services and electronic commerce or simply e-commerce?

Electronic commerce and service have succeeded in removing distance between the user and provider of service. Government regulations across borders have equally been removed by providing service electronically.

This equally has led to businesses that are small to look big in the internet. It is believed that there are some providers of service and their users that have never met face-to-face.

Internet has been the basis of e-commerce. One should take note however, that not all have access to the internet.

Language could be another barrier on the internet. Many companies do not permit any interaction on their websites, thus missing out on feedback from visitors.

1.8 Offering Services Internationally and Success Factors

1.8.1 Going into International Services

How does a firm engage in the provision of international service operations?

If you want to go into the service provision sector internationally, you should take note of the following.

The service you want to provide. Is it in support or in conjunction with goods? The most acceptable method is to follow the method and ways goods are provided to the customers.

It is widely believe that service providers, whose activities are not related to products, need a different strategy. These individuals and firms must look for market situations abroad that are similar to the domestic market.

Another point is that a service provider must identify and understand points of transition abroad.

International service providers should equally stay informed about international projects sponsored by domestic organisations, World Bank, the United Nations, etc.

1.8.2 Strategic Indications

For you to be successful in an international service provision, you must:

- i Determine the nature and the aim of the services offering core - that is, whether the services will be aimed at people or at things and whether the service act in itself will result in tangible or intangible actions.

- ii. As a manager, you should consider other tactical variables that have an impact in the preparation of the service you want to offer. For instance, if you are carrying out a research for services, measurement of capacity and delivery efficiency often remain highly qualitative rather than quantitative.
- iii. Personnel issue must be looked into, if you want to provide service internationally.
- iv. Managers of service that prefer going abroad should have close interaction with their customers.
- v. Pricing and financing areas should equally be looked into because service is not stored; you should have in mind the demand and supply situation of service, so as to have greater flexibility in pricing.
- vi. In distribution, the service provider should have in mind that shorter channels of distribution are better.



1.9 Summary

In this study unit, you have been acquainted with fact that service and goods must be used to complement each other. Service is intangible and goods are tangible. Service has four characteristics which include: Intangibility, perishability, variability and incomparability.

Service has been able to create jobs and improve revenue in the world economy. In global service provision, it has led to increase in nations' GDP. It should also be noted that service provision is shifting from traditional method.

Technology and the environment have transformed service provision worldwide. Data and regulations are major problems of service worldwide.



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1.11 Possible Answers to SAEs

Answer to SAE 1

Examples of the complementarity of products and services include the following.

- i. Cassette and Music
- ii. Compact Disc and music
- iii. Handset and phone calls
- iv. Generators and power supply
- v. Pressing iron and pressing of cloths.

Answer to SAE 2

Four basic characteristics of a service as differentiated from a product include the following.

- (i) Intangible
- (ii) Variability
- (iii) Perishable
- (iv) Inseparability

Answer to SAE 3

Areas of difficulty a Nigerian may face in exporting his service outside this country include the following.

- i. Quality requirements
- ii. Stiff competition
- iii. Difference in technology
- iv. The overseas markets are already bloated with varied services
- v. Only specialized services such as concerts featuring local troupes can be exported
- vi. Hosting issue such as getting recognized foreign agents and securing suitable place where to stage the service.

UNIT 4 PRODUCT POLICY DECISION IN INTERNATIONAL BUSINESS MANAGEMENT

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Product Policy Decision
 - 1.4 Communicating with Your Customers
 - 1.5 Product Modification or Standardisation
 - 1.5.1 Product Modification
 - 1.5.2 Product Standardisation
 - 1.5.3 Product Standardisation and World Product

Mandates

- 1.6 Branding and Packaging
 - 1.6.1 Selection of Brand Name
 - 1.6.2 Types of Branding
 - 1.6.3 Steps in Branding
 - 1.6.4 Brand Piracy
 - 1.6.5 Packaging
- 1.7 Five Corporate Strategies to Handle Counterfeiting
- 1.8 Summary
- 1.9 References/Further Readings/Web Resources
- 1.10 Possible Answers to SAEs



1.1 Introduction

You can recall from previous discussion (Module 2, Unit 4) that products are mostly goods taken to foreign countries for sale, which is called international marketing. This unit will discuss differences between product modification and standardisation for international markets. You should understand that products can hardly be sold without branding or packaging. This will be examined to know the implication of these two marketing strategies. Also discussed in this study unit is the after-sales service as another powerful marketing strategy that is associated with product.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss product modification and product standardisation
- Analyse branding and packaging as vital attributes of products
- Evaluate after-sales service in an international business



1.3 Product Policy Decision

In general terms, product in its nature is different from service. Hence product is regarded as anything that can be offered to a market for attention, acquisition, use or consumption. This includes physical objects, services, personalities, places, organisations and ideas. You can recall from the previous study unit that product or service differs in terms of tangibility and intangibility but sometimes the two are seen as products.

Product policy changes in a company depend largely on the competition in a changing international world. Competition is becoming intense and this is no more based on product itself. Marketing experts such as Kotler observe that the new competition is not between what companies produce in their factories but between what they add to their factories' output in the form of packaging, services, advertisement, customer service, financing, delivery, advertisement, warehousing and other things that people value.

The arrival of the Japanese and the Chinese in the world market as formidable trading nations has contributed immensely to the monitoring of marketing activities by firms in other economies so as to modify or change some aspects of marketing.

The question to be asked here is why do products fail in the market even after all these monitoring?

These problems include tariff and non-tariff barriers, dumping of products, cultural insensibility, poor planning, poor timing, etc. All these have both positive and negative effects on product policies that companies adopt for their products.

But how do you get in touch with your customers?

1.4 Communicating with Your Customer

Communication between manufacturers and consumers matters a lot. In the United States, for instance, there is a difference between plain English style and traditional English style. If what is intended to be communicated to the consumer is vague there will be a problem.

Consider the following information about eye drops and see how you understand them:

- i. One-two drops to be instilled into eyes every six hours for four days.
Not to be taken
Discard 28 days after opening.
- ii. Drop one or two drops into eyes four times a day. Do this at regular intervals for four days.
Don't swallow this.
Throw this away one-month after opening.

The information in these two are the same if care is not taken, the first may be misinterpreted. It is therefore advised that a company should state in clear, concise, brief and straightforward language on its products.

SELF ASSESSMENT EXERCISE 1

State five benefits of clear communication with your customers.

1.5 Product Modification or Standardisation

Product modification and standardisation is to make product conform to an acceptable world standard. Of recent, inflammable products have been modified to include ozone layer friendly chemicals. Therefore, businessmen worldwide must accept such. Fuel that is being imported into Nigeria must have between 5 percent- 10 percent ethanol. It was not so before, because of worldwide practice that ethanol must be accepted in petrol.

Standardisation is equally to make products to be of the same standard of measurement worldwide, so that size 45 shoes in Nigeria should be 45 in the USA, for instance. If not, there should be an acceptable way of conversion so that the standard could be maintained worldwide.

The pertinent question herein is this. How do you ensure appropriate modification of your products for acceptance and competitive advantage?

1.5.1 Product Modification

Product modification occurs because of the following reasons:

- i. Legal requirements.
- ii. Tariffs.
- iii. Nationalism.
- iv. Taxation.
- v. Climate. Other reasons for modification of products include:
- vi. Consumers taste.
- vii. Low personal disposable income.

- viii. Illiteracy and low level of education.
- ix. Poor maintenance standards will necessitate product change.
- x. Local labour costs.

1.5.2 Product Standardisation

Factors which encourage product standardisation include the followings.

- i. Production economy of scale
- ii. Development costs
- iii. Stock costs
- iv. Components that are intangible across product models
- v. Consumer mobility
- vi. Market homogeneity.

BENEFITS

There have been views on importance of product standardisation, which include three benefits such as the followings.

- i. Cost saving through experience.
- ii. Curve effects and economies of scale.
- iii. Consistency, with customers acknowledging consumer's mobility and cross-border flows of advertisement.
- iv. The other barriers are common to all markets, such barriers are social convention regarding product use and purchasing patterns.

SELF ASSESSMENT EXERCISE 2

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| Discuss five advantages of product standardisation to an international businessman. |
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1.5.3 Product Standardisation and World Product Mandates

The World Product Mandates refer to the full development and production of a new product line in a subsidiary of a multinational company thereby changing the nature of the subsidiary-parent multinational relationship to that of a strategic business or division.

Furthermore, the world product mandate permits the subsidiary to be responsible for the development and worldwide marketing of a specific innovation. The subsidiary needs to bargain with its parent to serve a potentially profitable mandate, but once it has, the subsidiary can use the internal market of the multinational organization to distribute and control new process. But what about the benefits in relation to the costs of product mandate?

It is necessary, therefore, to examine the cost benefits from the viewpoint of the three parties involved: host country, subsidiary company and the parent multinational/organisation. Product classification and standardisation are related.

Product classification

Degree of standardisation

Industrial goods.

Consumers' durables - recent trends T-shirts

Consumers' non-durables used outside home e.g. cosmetics

Consumers' durables - traditional values affect product
e.g. formal/work dress

Consumers' non-durables used inside home e.g. instant coffee

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1.6 Branding

Branding is a means of distinguishing a company's products. It is a means whereby the consumer can identify a particular product, and, if satisfied with it, ask for it by name.

Branding can be seen to fall in these categories.

- i. Descriptive, like cornflakes and MTN
- ii. Associative, like fruit bursts, Aquafina, Life, eva, and intercity.
- iii. Stand alone, like GOtv, Hob-Nobs or Casey Jones.

International branding from the manufacturer's viewpoint has seven types, each with its advantages and disadvantages.

1. No Brand Products

- | | | |
|---------------|---|---|
| Advantages | - | Lower production cost. |
| | - | Lower monitoring cost. |
| | - | Lower legal cost. |
| | - | Flexible quality control. |
| Disadvantages | - | At the receiving end of severe price competition. |
| | - | Lack of market identity. |

2. Branded Products

- | | | |
|------------|---|---|
| Advantages | - | Better identification awareness. |
| | - | Better chance for production differentiation. |

- Possible brand loyalty from consumers.
- Possible premium pricing.

- Disadvantages
- Higher production cost
 - Higher marketing cost
 - Higher legal cost

3. Private Brand

- Advantages
- Better bargain for dealers
 - Possibility of larger market share or promotion problems.

- Disadvantages
- At the receiving end of severe price competition
 - Lack of market identity.

4. Manufacturer's Brand

- Advantages
- Better price due to more price inelasticity
 - Attracts of brand loyalty from consumers
 - Better bargaining power

- Disadvantages -
- Better control of distribution
 - Difficult for small manufacturers with unknown brand identity
 - Requiring brand promotion

5. Multiple Brands (in one market)

- Advantages
- Market segmented for varying needs
 - Creates competitive spirit
 - Gaining more retail shelf space
 - Gives more publicity to existing brands image

Disadvantages

- Higher marketing cost
- Higher investing cost
- Loss of economies of scale.

6. Single Brand (in one market)

Advantages - Marketing efficiency

- Permitting more focused marketing
- Elimination of brand confusion
- Good for products with good reputation (halo effect).

Disadvantages - Assuming market homogeneity

Existing brands image affected negatively when trading plummets
Limited shelf space life.

7. Local Brands

Advantages - Gains strong patronage in local market

- Local identification
- Avoidance of taxation on international brand
- Allowing variations of quantity and quality across markets

Disadvantages - Higher marketing cost

- Higher inventory cost
- Loss of economies of scale
- Diffuse image.

8. Worldwide Brand

- Advantages
- Maximum marketing efficiency
 - Prediction of advertising costs
 - Elimination of brand confusion
 - Acceptable to people across cultures
 - Appeals to upper class people across countries
 - Easy identification/recognition for international travellers
 - Uniform worldwide image.
- Disadvantages
- Assuming market homogeneity
 - Problems with black and gray markets
 - Possibility of negative connotation
 - Requiring quality and quantity consistency
 - Legal complications.

SELF ASSESSMENT EXERCISE 3

What are the pros and cons of using a local brand while in marketing internationally?

1.6.1 Selection of Brand Name

What are the criteria to consider when selecting a brand name?

A brand name when selected should be able to meet some of these criteria. A good brand name should:

- i. be short
- ii. be unique
- iii. be memorable
- iv. connote quality

- v. be pleasant to hearing
- vi. be descriptive of the product
- vii. be distinctive
- viii. be pronounceable
- ix. be acceptable
- x. be legal
- xi. be suggestive of the product it represents
- xii. be easy to remember.

Many products fail this test in an international market.

Brands that have succeeded worldwide include:

- i. Coke
- ii. Pepsi
- iii. Honda
- iv. Rolls Royce
- v. Toyota
- vi. Sony.

1.6.2 Types of Branding

The following are the classification of brands. i. Individual brand names.

Procter & Gamble gives a different name for different products. ii. Blanket family name for all products.

iii. Separate family names for all products. This is mostly practised by departmental stores.

iv. Company name and individual product name.

1.6.3 Steps in Branding

The following steps are used.

- i. Information gathering using one or more in-depth telephone interviews with key members of the organisation
- ii. Old fashion brain storming
- iii. Individual name development
- iv. Feedback and evaluation
- v. Limited trademark search and profanity check
- vi. Report preparation.

Avoiding eight great blunders in branding

- i. People respond most positively to names. Try to avoid abstract names.
- ii. Avoid names devoid of imagination and emotional appeal.
- iii. Avoid names made up of alphabets like AZY, ZYB, GYT, etc.
- iv. Avoid vulgar and abusive names.
- v. Avoid names that are already well known in the market. You should be original in your own brand name.
- vi. Avoid allowing other professionals to give your product a name that has no marketing value.
- vii. Avoid meaningless names.
- viii. Avoid ugly names.

1.6.4 Brand Piracy

Piracy is copying of other people's work. There are four ways competing companies can pirate some brands.

i. Outright piracy

Products look the same in form and trademark as the original.

ii. Reverse engineering

Stripping down the original product and then copying it, underselling the original manufacturer.

iii. Counterfeiting

Altering the products quality without altering the trademark.

iv. Passing off

Modifying both the product and trademark, adapting a trademark that is similar in appearance, aesthetic quality or meaning to the original product.

v. Wholesale infringement

This involves the questionable registration of famous brand name overseas rather than the introduction of faked products.

1.6.5 Packaging

Packaging in some cases is not seen as a promotional tool, but simply a barrier, a way to protect products from other forces of competition.

Packaging size changes with personal disposable income, but also with available channel of distribution.

Packaging design is affected by:

- i. type of distribution channel
- ii. climate

Packaging from whichever angle you look at it is to:

- i. protect the product
- ii. use it for promotion.

But who can a company manage counterfeiting of its products?

1.7 Five Corporate Strategies to Handle Counterfeiting

Some writers have identified five strategies to handle counterfeiting. Such as listed below.

- (i) Compete and attempt to overcome the opposition.
- (ii) Avoid conflict and withdraw from the fray.
- (iii) Accommodate the opposition, where the objective is appeasement.
- (iv) Collaborate.
- (v) Compromise.



1.8 Summary

You can appreciate, from the discussion in this study unit, the fact that to go international with a product, you need to package it, brand it in such a way that it will get to consumers safe and sound. These could be used as promotional strategies for the company's product.

In addition, your product must be produced to conform with the international standards. This, you can achieve by way of standardisation and modification of the product. In related terms, brand name must be carefully chosen to suit the occasion; it should be local or international.



1.9 References/Further Readings/Web Resources

Jhanji, H. (ed.) (2015). *International business*. New Delhi: Excel Books Private limited

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1.10 Possible Answers to SAEs

Answer to SAE 1

Five benefits of clear communication with your customers include the following.

- i. It enhances patronage of the products
- ii. Creates goodwill for the company
- iii. It enhances customer satisfaction
- iv. Increases sales volume of the products
- v. Enhances competitive advantage for the company

Answer to SAE 2

Five advantages of product standardisation to an international businessman include the following.

- i. It enhances acceptance of the products
- ii. Creates goodwill for the company
- iii. It enhances customer satisfaction
- iv. Increases sales volume of the products
- v. Enhances competitive advantage for the company

Answer to SAE 3

Advantages (Pros) and Disadvantages (Cons) of using local brand in international marketing include followings.

Advantages (Pros)

- i. Gains strong patronage in local market
- ii. Local identification
- iii. Avoidance of taxation on international brand
- iv. Allowing variations of quantity and quality across markets

Disadvantages (Cos)

- i. Higher marketing cost
- ii. Higher inventory cost
- iii. Loss of economies of scale
- iv. Diffuse image

UNIT 5 NIGERIAN ORGANISATIONS AND INTERNATIONAL BUSINESS

- 1.1 Introduction
- 1.2 Learning Outcomes (LOs)
- 1.3 Nigerian Organisations Regulating International Business
 - 1.4 Nigerian Investment Promotion Commission
 - 1.4.1 Functions of NIPC
 - 1.4.2 Services of NIPC
 - 1.5 Nigerian Export Promotion Council (NEPC)
 - 1.5.1 NEPC, Marketing Strategy, Execution and Development
 - 1.5.2 Export for Beginners
 - 1.6 Nigeria Export-Import Bank
 - 1.6.1 Product/Services of NEXIM
 - 1.7 Nigerian Export Processing Zone Scheme
 - 1.7.1 Grants Available for Exporters
 - 1.7.2 The Nigerian Export Processing Zones Scheme (Calabar)
 - 1.8 Central Bank of Nigeria
 - 1.8.1 Objective of CBN
 - 1.8.2 Functions of CBN
 - 1.8.3 Problems of CBN
 - 1.8.4 Advertisement, Vision and Mission of CBN
- 1.9 Summary
 - 1.10 References/Further Readings/Web Resources
- 1.11 Possible Answers to SAEs



1.1 Introduction

You can appreciate the fact that there is the need for the regulation of business operations between Nigeria and other countries. Basically, the Nigerian government has always encouraged Nigerians and business entities to go into international business. As a result of this, relevant agencies have been set up to help in this direction.

Hence, there are so many agencies in Nigeria promoting and regulating export and import activities and also, there are agencies on how foreigners can set up business in Nigeria.

This study unit discusses such government organisations that aid international business. Some of these agencies include: the Central Bank Export-Import Bank; Nigerian Export Promotion Council; and Nigeria Investment Promotion Council, among others. Their functions and contributions to international trade are particularly of interest for discussion, and constitute what you are going to study in this unit.



1.2 Learning Outcomes (LOs)

By the end of this unit, you will be able to:

- Discuss Nigerian Investment Promotion Council and its contributions to international business
- Analyse the contributions of Nigeria Export Promotion Council to boost export in Nigeria
- Analyze how Nigeria Export Processing Zone scheme has been able to facilitate exports from Nigeria
- Evaluate the supervisory role of the Central Bank in facilitating international business.



1.3 Nigerian Organisations Regulating International Business in Nigeria

There are so many organisations involved in the regulation of international business in Nigeria.

Specifically, the organisations you are going to study in this unit include the followings.

- i. Nigeria Investment Promotion Commission
- ii. Nigeria Export Promotion Council
- iii. Nigeria Export-Import Bank.
- iv. Nigeria Export Processing Zone Scheme
- v. The Central Bank of Nigeria

1.4 Nigerian Investment Promotion Commission (NIPC)

How do the country promote foreigners to come and invest in Nigeria?

Making decision whether to invest in a country is never an easy task. It requires crucial information, research and planning. This led to the formation of the Nigerian Investment Promotion Commission (NIPC) in July 1995. The NIPC is an indispensable ally of potential foreign investors. The NIPC is tasked with overcoming the bureaucracy that had previously discouraged foreign investors especially from taking advantage of investment opportunities in Nigeria.

Located in Nigeria's capital, Abuja, the NIPC building is open and ambient with efficient-looking. As a one-stop necessity for potential investors, it serves as a central investment approval agency, streamlining the activities of ministries, government departments and agencies involved in investment promotion. It helps in matters such as registration or incorporation of foreign enterprises, obtaining expatriate quotas or finding out specifics about the different tax regimes for sectors like cargo, oil or mining.

It also serves as a catalyst for injecting the much-desired foreign capital into Nigerian economy through investments. It allows foreigners and local investors alike wishing to own up to 100 percent shares in investments in the country. It also encourages and promotes competition in the economy.

1.4.1 Functions of NIPC

The NIPC performs the following statutory functions:

- i. advises government on policy issues related to investment.
- ii. guarantees the protection of foreign interests in Nigeria against expropriation.
- iii. administers appropriate incentives packages available to investors.
 - iv. guarantees transferability of profits and other funds by investors.
- v. initiates, organises and participates in promotional activities such as trade fairs, exhibitions, workshops, conferences and seminars to simulate and attract investment.
- vi. identifies difficulties and problems encountered by investors, proffer solutions and render assistance to them.

1.4.2 Services of NIPC

- a) Provides up-to-date information on investment opportunities available in the country, to prospective foreign investors.
 - b) Links foreign investors with local partner.
 - c) Issues business permits to foreign investors.
 - d) Coordinates the issuance of expatriate quota.
 - e) Negotiates in consultation with appropriate government agencies, specific incentive packages for investors.
- f) Enters directly into bilateral agreement with investors for purposes of investment.
- h) Identifies specific projects and invites interested investors to partake in them and more.

SELF ASSESSMENT EXERCISE 1

| |
|---|
| Identify the various ways by which the NIPC facilitate investments in Nigeria from foreign investors. |
|---|

1.5 Nigerian Export Promotion Council (NEPC)

1.5.1 NEPC, Marketing Strategy, Execution and Development

The Nigerian Export Promotion Council (NEPC) was established through the promulgation of the Nigerian Export Promotion Council Act No. 26 of 1976 and formally inaugurated in March 1977. This Act was amended by decree no. 72 of 1979 and further amended by the Nigerian Export Promotions) Decree no 41 of 1988 and complemented by the Export Promotion Miscellaneous Provisions Decree No. 18 of 1986.

Furthermore, the Nigerian Export Promotion Council Amendment Decree No 64 of 1992 was promulgated to enhance the performance of the Council by minimising bureaucratic bottlenecks, and increasing autonomy in dealing with members of the Organised Private Sector. The vision of NEPC is to make the non-oil export sector a significant contributor to Nigeria's GDP, while its vision is to facilitate opportunities for exporters to promote sustainable economic development.

The Nigerian Export Promotion Council (NEPC) is the federal agency charged with the responsibility of developing diversifying and promoting non- oil export products in foreign markets. Alder Consulting was recently engaged to oversee and implement the marketing of the Council locally and internationally. Analysts have observed that the council had no brand standards and there was little awareness of its role in the market. Furthermore, information about NEPC and the export sector in Nigeria was not easily accessible.

But what its responsibility in encouraging Nigerians in exporting their products?

1.5.2 Export for Beginners

An exporter is someone who sells goods or services in a foreign market in order to make profit. Exporters can be classified into the following categories.

Export Merchant: - An exporter who buys goods or products for export from manufacturers and producers within the country.

Manufacturing Exporter: - A company which, apart from manufacturing certain products, is also exporting the product.

How does the organization help new entrants in export business?

Getting Started

This is done through registration with NEPC

The firm which wishes to export has to be registered either as a corporate body or a cooperative society with the Nigerian Export Promotion Council. The NEPC is the federal agency charged with the responsibility of promoting export of made in Nigeria goods. NEPC is also responsible for the registration of new entrants into the exporting business. The relevant application forms,

which can be obtained at zonal offices, is to be duly completed and returned to NEPC offices accompanied with the following documents.

- i. Copy of certificate of incorporation/evidence of registration (applicable to co-operative societies)
- ii. Memorandum and articles of association
- iii. Certified true copy of Form C.O.7 (particulars of directors of the Company)
- iv. Copy of current tax clearance certificate.

Registration takes approximately two weeks after submission of all required documents. The exporter is then issued with a certificate with a code number. Renewal of registration with NEPC as an exporter is compulsory every two years. It can be done by submitting the following documents:

- i. Current company tax clearance certificate
- ii. Evidence of export performance within the two years
- iii. Certified true copy of Form C.O.7.
- iv. Regulated goods to be exported out of the country also have to be duly registered by the National Agency for Drug Administration and Control (NAFDAC) and the Standards Organization of Nigeria (S.O.N).

In order to register a regulated product at NAFDAC, the prospective exporter writes to the Director-General of NAFDAC, an application accompanied with the stipulated fees per consignment of intended export attaching the following documents.

- a. Evidence of registration of the regulated product with NAFDAC
- b. Registration certificate granted by NEPC

The following details of the goods should also be provided.

- i. Batch Numbers
- i. Date of Manufacture
- iii. Expiry date or best before date
- iv. Destination of intended export
- v. Certificate of analysis of the product batch by batch

v. Name and full address of the manufacturer.

The Agency issues an export certificate if:

- a. establishment maintains the standard requirements of goods manufacturing practice
- b. the regulated product passes NAFDAC laboratory tests.

Exporters of regulated products also have to contact the nearest Standards Organisation of Nigeria (SON) office and submit the following documents.

- i. Request for product certification
- . Test report.

A product which falls into more than one regulated category will need application for each category. A product certificate is then issued which has a validity of three years from the date of issue. A list of regulated products can be obtained from the SON website.

1.6 Nigerian Export-Import Bank

The Nigerian Export-Import Bank (NEXIM) was established by Act 38 of 1991 as an Export Credit Agency (ECA) with a share capital of N500,000,000 (Five Hundred Million Naira) held equally by the Federal Government of Nigeria and the Central Bank of Nigeria. The Bank replaced the Nigerian Export Credit Guarantee and Insurance Corporation earlier set up under Act 15 of 1988.

How does the bank aid exporters and importers in their quests for international operations?

The NEXIM has the following main statutory functions.

- i. Provision of export credit guarantee and export credit insurance facilities to its clients.
- ii. Provision of credit in local currency of its clients in supports.
- iii. Establishment and management of funds connected with exports.
- iv. Maintenance of a foreign exchange revolving fund for lending to exporters who need to import foreign and also to facilitate export production.
- v. Maintenance of a trade information system in support of export business.
- vi. Provision of domestic credit insurance where such a facility is likely to assist exports.

The bank, at present, provides short and medium term loans to Nigerian exporters. It also provides short-term guarantees for loans granted by Nigerian banks to exporters as well as credit insurance against political and commercial risks in the event of non-payment by foreign buyers. The bank is also the government's National Guarantor under the ECOWAS Inter-State Road Transit Programme. The bank's authorised capital as at December 31 2006 was N50 billion with a fully paid-up portion amounting to N11 billion.

But what does the specialised bank offer as services to prospective exporters?

1.6.1 Products/Services of NEXIM I. Direct Lending Facility (DLF)

NEXIM lends money directly to Nigerian exporters to fund their purchase of capital goods, raw materials, packaging materials and spare parts through the direct loans facility. The facility also covers the provision of infrastructure as well as revitalisation and modernisation of plants/machinery. Providers of export services in the areas of consultancy, tourism, oil and gas, etc, are also eligible for support.

It is provided in both local and foreign currency. Typically, NEXIM advances the funds directly to the Nigerian exporter, and these funds are repaid within a maximum period of seven years including a minimum period of two years.

II. ECOWAS Interstate Road Transit Scheme (ISRT)

The scheme is designed to promote free flow of goods among member

states; free of duties, taxes and restrictions while in waiting, escort system and also to check the diversion of goods consigned for a specific destination.

NEXIM is the national guarantor for Nigeria under this scheme and is responsible for managing the risks. The risks covered include the diversion of goods within a country other than the country of destination, which would result in a loss of import duties/charges that could have been paid to the Customs authorities in the country the diversion occurs. This implies that the risks to be covered by NEXIM in Nigeria is the import duty accruable to the Nigeria Customs Service based on the invoice value of the transiting goods only and not on damage or loss of consignment.

III. Export Credit Guarantee Facility (ECGF)

NEXIM's export credit guarantee facility is designed to protect Nigerian banks against the risks of non-payment for loans or advances granted to exporters to meet short-term export contracts.

Pre-and post-shipment guarantees are available under the facility for a period of 180 days. This facility does not cover the risks of non-payment resulting from any fraudulent act of the exporter or his agents and risk of

non-payment resulting from the failure of the exporter to fulfill the terms

of the export contract or negligence on his part. Other risks excluded include non-payment as a result of default of the exporter's agent or collecting banks as well as non-payment resulting from physical

damage, which should normally be insured with commercial insurance companies.

IV. Export Credit Insurance Facility (ECIF)

One of the major problems facing exporters is the non-payment for goods exported. Non-payment may result from the buyer's insolvency or other events outside the control of the exporters and the buyers.

NEXIM's export credit insurance facility is designed to protect Nigerian exporters against the risks of non-payment for goods and services exported on credit terms as a result of commercial/political events.

The facility covers both pre-and post-shipment risks for maximum period of 180 days. However, the facility excludes the risks normally insured by commercial insurance companies or other government departments, foreign risks, insolvency or default of exporter's agent or collecting bank and failure of the exporter to fulfill the terms of the contract or negligence on his part.

V. Foreign Input Facility (FIF)

This provides manufacturers of export products foreign currency loans to import capital equipment, packaging and raw materials to produce finished products for export. The facility has a maximum tenor of seven years inclusive of a moratorium period of not more than two years. It is repayable in foreign currency.

VI. Local Input Facility (LIF)

This is a medium for long-term facility and is provided in local currency to enable exporters finance capital purchases and other activities that would require more than one year to repay. The facility has a maximum tenor of seven years inclusive of the moratorium period of not more than two years.

VII. NDE Facility (NDEF)

This facility is designed to provide direct financial assistance to qualified Nigerian graduates (the participants) to enable them undergo tutelage with established exporters under the Start-Your-Own-Business (SYOB) Programme, prior to their exporting eligible goods and services themselves. The objective is to create the required linkage for registered companies/cooperatives owned by jobless graduates to go through practical trainings and guidance with reputable exporters, who may in turn assist them in securing export contracts from overseas and/or outsource some aspects of their businesses to them.

VIII. National Sesame Seeds Credit Facility (NSSEP)

This is available to provide necessary financial assistance to qualified registered companies under a special credit scheme for the exportation of sesame seeds and to assist the target companies to directly access short-term pre-and post-shipment finance in support of export of sesame seeds with a view to increasing the quantity as well as quality of sesame seeds exported from Nigeria annually.

IX. REDISCOUNTING AND REFINANCING FACILITY (RRF)

This helps banks to provide pre and post-shipment finance in local currency to support non-oil exports. The RRF gives exporters access to the bank's export portfolios at preferential rates.

The refinancing scheme provides a bank with credit of up to one year. Short-term pre-shipment credit of up to 120 days and post shipment credit of up to 60 days is provided under the rediscounting scheme.

X. SPECIAL CASSAVA EXPORT CREDIT FACILITY (SCECF)

Following the establishment of the Presidential Initiative on cassava export promotion by Mr. President in February 2004, NEXIM was selected as a key member of the Sub-Committee on Finance and Export Proceeds Repatriation and specifically requested to support the initiative.

To this end, the management of NEXIM considered and consented to the establishment of a special cassava export credit facility to allow for direct disbursement of approved loans to qualified exporters of cassava products.

XI. STOCKING FACILITY (SF)

This is provided in local currency and it enables manufacturers of exportable goods to procure adequate stocks of raw materials to keep their production at optimal levels. The stocking facility is available for up to one year and is granted at rates capable of enhancing the competitiveness of manufactured export.

Textile Revolving Fund (TRF)

This is provided in local currency and it enables manufacturers of exportable goods to procure adequate stocks of raw materials to keep their production at optimal levels. The stocking facility is available for up to one year and is granted at rates capable of enhancing the competitiveness of manufactured export.

1.7 NIGERIA N EXPORT PROCESSING FREE ZONE SCHEME (EPFZS)

What is the necessity for the establishment of the EPFZS?

Since the inception of the new democratic administration led by President Olusegun Obasanjo in May 29, 1999, efforts have been made to attract both local and foreign investors to the country to boost Nigeria's economy. It is stressing the obvious that the path to industrialisation will involve discipline, focus and hard work from all sectors of the economy. In this light, the diversification of the economy has led to de-emphasising the role of oil production and exports within the country's economy. Much needed focus has thus been devoted to other sectors like solid minerals, tourism, telecommunication, commerce and industry.

1.7.1 The Essence of Setting up EPFZS

All these efforts towards economic development led in November 1991 to the establishment of the Export Processing Free Zone Scheme (EPFZS). This scheme allows for interested persons to set up industries and business within demarcated zones known as Export Processing Zones, (EPZs) principally with the objective of exporting the goods and services manufactured or produced within the zones. However, this novel scheme was slowed down by political manipulations. It thus took another decade before it was inaugurated by the then President Obasanjo. The multi-billion naira Calabar Export Processing Zone (CSPZ) came into being recently.

In a nutshell, the scheme is to promote the diversification of the export base of the nation through the acceleration of export business with attendant loaded incentives; this, it is perceived, will include industrial production, offshore banking, insurance and reinsurance, international stocks, commodities and mercantile exchange, commercial industrial research, agriculture and agro-allied industry, mineral processing, as well as international tourist resort development and operation. The Calabar Zone has been designated as the primary EPZ territory and a total of 80 serviced plots have been reserved for prospective investors for self-built factories.

1.7.2 Tax Relief and Other Incentives

The incentives that come to inventors in the designated EPZ territories are as follows.

- i. Tax holiday relief, legislative provisions pertaining to taxes.
- ii. Levies, duties and foreign exchange would not apply within EPZs repatriation of foreign capital investment in EPZs at any time capital appreciation of the investment.
- iii. Unrestricted remittance of profits and dividends earned by foreign investors in EPZs.
- v. No import or export licenses required rent-free land during construction of premises.
- vi. Up to 100 percent foreign ownership of enterprises in EPZs, sale of up to 25 percent of production permitted in domestic market.
- vii. No quotas on products from Nigeria exported to the European Union, (EU) and the United States of America.
- viii. Made in Nigeria goods are entitled to preferential tariffs in the EU.

SELF ASSESSMENT EXERCISE 2

Name various incentives of EPFZ to international business.

1.7.3 Grants Available for Exporters

The provision of the Industrial Development (Income Tax Relief) Act with respect to Pioneer Status qualifies for a tax holiday of 3-5 years to any manufacturing exporter who exports at least 50% of his annual production. Additional concessions are also available in the local raw material development, local value-added, labour-intensive or export-oriented activities that involve significant training.

What are the benefits accruing to investors and financiers in the EPFZ?

i. Tax Relief on Interest Income

Interests accruing from loans granted by banks in aid of export activities enjoy favourable tax treatment.

ii. Capital Assets Depreciation Allowance

The law in Nigeria provides an additional annual depreciation allowance of 5 percent on plants and machinery to manufacturing exporters who export at least 50 percent of their annual turnover provided that the product has at least 40 percent local raw material content or 35 percent value added.

iii. Investment Protection

Protection of property is provided by Section 31 of 1999 Constitution. The section states: No property or other rights will be taken over or compulsorily acquired except under a law which provides for adequate compensation and for a right of access for any claimant to the High Court of the relevant part of Nigeria for the determination of interest in the property and compensation amount.

iv. Expropriation

The Nigeria Investment Protection Commission Decree guarantees against nationalisation, expropriation and compulsory purchase.

v. Disputes Settlement

Disputes between an investor and any government of the Nigerian federation in this regard which cannot be amicably settled, may be submitted by an aggrieved party to arbitration in accordance with Nigeria's Arbitration and Conciliation Decree 1988 or within the framework of any bilateral or multilateral agreement on investment protection to which the Federal government and the investor's country are parties or in accordance with any other national or international machinery for the settlement of investment disputes as agreed to by the parties. Nigeria's legal entity with basis on English common law, further upholds the sanctity of contracts and the rule of law.

The scheme operates in a fashion that cuts off the bureaucratic delay that

is synonymous with government agencies by allowing the Nigerian Export Processing Zones Authority (NEPZA) to administer, manage, control and coordinate the quick approvals for participating foreign investors while its supporting agencies handle almost all phrases of operations in the zone independent of government. These include issuing application forms and approval, company registration and construction licensing among others.

To facilitate the operation of the Calabar EPZ, the Calabar seaport has been declared as a free port to complement the status of the free trade zone. Among the numerous facilities sited at the 152 hectare Calabar EPZ site, is a new port less than two kilometers away with fully buoyed river channel and an estimated capacity of about 1.5 metric tons of cargo excluding crude oil. Many investors are already eager to set base in Calabar and the government has assured of the existence of several pre- built standard factories. At the moment, only three companies are operating in the Calabar Zone, so there is plenty of room for new companies. It has been promised that the entire necessary infrastructure will be in place plots, roads, street lighting, perimeter fencing, electricity and water facilities.

With a vast population that is rich in human potentials and abundant mineral resources, the success of the EPZs is almost certain from day one, though the elimination of the Nigerian factor must be a priority concern for the eventual growth of the scheme. Also, the establishment of other zones around the country is being considered in order for wider coverage and developmental impact. Kano and Lagos are veritable locations for such a project with the former catering for the Trans- Sahara trade and latter focusing on export of manufacturing products. The prioritization of quality should not be sacrificed on the altar of quantity and strict monitoring regulations must be formulated to guide participating firms.

1.7.4 Calabar Export Processing Zone

What informs the establishment of this EPZ besides that of Lagos?

The Calabar EPZ provides investors with one of the most suitable sites

for export manufacture in Africa. The zone provides serviced industrial and administrative facilities at the most competitive rates obtainable for facilities of such standards in Africa. In addition to public supplies of such utilities as power, water and telecommunications, the zone has its own private back-up supply of these essential utilities and services.

Calabar, the city in which the EPZ is sited, is an ancient and historic city with an enviable past, having served as the capital of the Southern Protectorate of Nigeria before the amalgamation of the Northern and Southern Protectorates in 1914.

The serene and beautiful city served as the centre of operations for the Royal Niger Company during the days of the oil palm trade as well as being an age long centre of learning. It is at present the capital of Cross River State in South East Nigeria and is fondly referred to as the Canaan City, the Biblical land flowing with milk and honey. Although one is not likely to actually find milk and honey flowing on the streets of this clean, enchanting and alluring city, one will definitely discover the warmth and hospitality of the people of Calabar in abundance.

There are other attributes, which make the choice of Calabar as the site of Nigeria's pioneer EPZ an excellent one. The city has good road links with other parts of the country and is traversed by the Trans African Highway. It is a major gateway to the Republic of Cameroon and other countries of Central Africa. Its modern seaport adjoining the EPZ is of special advantage and will result in significant savings for shipping and haulage services to investors in the Zone. The city's international airport is less than 20 minutes drive from the site of the Calabar EPZ.

Several airlines provide Calabar with international and local air travel services. Arik Airlines is the major operator from Calabar Airport. It operates daily domestic flights to and from Lagos and Port-Harcourt, with connecting international flights to other destinations in Africa. The airline also operates flights to Ghana, Liberia, Sierra Leone and Guinea. Calabar and its environs have a pool of skilled and trainable manpower with significant industrial experience. Such manpower is available at very competitive rates, which rank among the lowest in the world. There are several institutions of higher learning in Calabar and its environs which provide university, technical and vocational education. If the need arises, these institutions can provide any special training needs and support services that producers in the Zone may need. Industrial activity in Calabar is largely in natural resource-based industries such as oil palm, wood, limestone, rubber, cocoa and coffee.

However, activities in the oil and gas industry, especially the aluminum smelting plant at Onne, near Ikot Abasi and the activities of Mobil Producing Nigeria Unlimited, at Eket, offer prospects for linkages between manufactures in the Calabar EPZ and these industries.

Moreover, the disposition of its people, its rich history, culture and several natural attractions make Calabar an ideal tourist location. Attractions in Calabar and within its surrounding include the Abokim Water Falls, Qua Falls, and the Gorilla Sanctuary in the Kanyang National park. What are the attractive facilities available within the zone?

I. Facilities within the Calabar EP Zone

There are numerous facilities within the Calabar EP Zone include the followings:

- (a) Service plots;
- (b) Uninterrupted power and water supply;
- (c) Modern and efficient telecommunications system
- (d) Excellent internal road network;
- (e) Built-up factory space
- (f) Modern catering and recreational facilities;
- (f) Banking services; and
- (g) Custom service.

II. Industries Permitted Within the Zone

Industries permitted within the Calabar EPZ are the following.

- (a) Electrical and electronic products;
- (b) Textile products;
- (c) Garments production; (d) Handcrafts;
- (e) Leather products;
- (f) Petroleum products;
- (g) Rubber and plastic products;
- (h) Cosmetic and other chemical products; (i) Metal Products
- (j) Educational materials and Sport equipment;
- (k) Printing materials, Communication and office equipment;

- (l) Medical kits, Optical instruments and appliances;
- (m) Biscuits, confectionaries and other foods processing; and,
- (n) Pharmaceutical products. Proposals for industries outside the above listings will be considered on their individual merit.

III. Summary of Investment Procedure

The following is a summary of procedures, which an investor will normally follow in establishing an industry under the Calabar EPZ.

1. Inquiries and obtaining investment application form.
 2. Inspection of built-up factory space and serviced industrial plots.
 3. Submission of investment application form.
 4. Processing of application form.
 5. Where application is approved, apply for company registration.
- 6(a) Outright purchase of built-up standard factory: Payment purchase shall be made as follows:
- i. 10% of the purchase price within 3 months of execution of purchase agreement. The balance of 90% must be paid 5 months after.
- (b) Rent of built-up factory space: Rent shall be paid as follows:
- i. 1 year rent upon execution of rental agreement. Thereafter, rent shall be payable annually.
- (c) Lease of built-up standard factory: Rent for the lease shall be paid in 3 payments as follows:
- i. 40% of the rent payable for the lease on or before execution of lease. 30% rent for the lease on or before the end of the 5th year of the lease 30% of the rent payable for the lease on or before the end of the 10th year of the lease
- (d) Lease of service plots: Rent from the lease shall be paid as follows:
- i. 40% of the rent payable for the lease on or before approval of factory construction 30% of rent payable for the lease at the end of the 5th year of the lease. 30% of rent payable for the lease at the end of the 10th year of the lease.
7. Remittance of Investment Capital.
 8. Assessment of Investment outlay.

9. Pre-production inspection of factory building, plant and machineries before commencement of production.
10. Obtain certificate to sell 25% of production in the domestic market.

In conclusion, Nigeria's continues commitment of the implementation of liberal economic policies that will enhance the development and growth of the export sector coupled with the naira's favourable exchange rate for exports provided an excellent opportunity for profitable export production from the Calabar EPZ.

SELF ASSESSMENT EXERCISE 3

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| Discuss five services available to international businessmen in EPZ |
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1.8 Central Bank of Nigeria

Central Bank simply refers to a central monetary authority or an apex financial institution within the entire financial structure of a country.

The apex bank is charged with promoting its monetary stability and a sound financial system. The Central Bank is one of a variety of structures, functions and powers, which are the by-product of the economic, political and other realities prevailing in a society.

Historically, prior to the establishment of the Central Bank of Nigeria by the CBN Act of 1958, there existed a body known as the West African Currency Board (WACB). This Board, which was established by the then British Colonial Government, was intended to serve as a Central Bank for the Anglophone West African countries. Thus, the Board was charged with the primary responsibility of issuing the West African pound, which served as the legal tender currency in Ghana, Nigeria, Sierra-Leone and Gambia.

Another function performed by WACB was the management of the reserves held in trust for these colonies. Such reserves were invested by the Board on behalf of the West African countries as instruments in the London Money Market. The weaknesses of the Board for which it was criticised were as follows.

- i. It carried on commercial banking activities alongside other commercial banks;
- ii. The Board lacked the basic apparatus to control the supply of money;
- iii. The Board got involved in physical distribution of currency from one point to another;
- iv. Its activities were considered discriminatory against indigenous West African industrialists;

- v. It was not on the development of the colonies and most of its activities were based on commerce and trade.

But What are the objectives for establishing the apex bank in the country?

1.8.1 Objectives of CBN

The principal objectives of the Bank as stipulated in the CBN Act 1958 are as follows.

- a. The insurance of legal tender currency in Nigeria.
- b. To maintain the external reserve and value of the legal tender in order to safeguard the international value of the currency.
- c. To promote monetary stability and a sound financial system.
- d. It serves as the banker and financial adviser of the Federal Government.
- e. It is the banker to other banks within Nigeria and abroad.

But what are the functions being performed by the apex bank in the country?

1.8.2 Functions of CBN

To achieve the above objectives, CBN undertakes the following functions as stated in the Act. The basic functions performed by CBN can be broadly categorised into three.

- a. Traditional functions
- b. Regulatory functions and c. Development functions. I. **Traditional Functions**
 - i. It issues the legal tender (currencies) naira and kobo.
 - ii. It acts as the banker and financial adviser to the Federal Government.
 - iii. CBN acts as the banker to other banks and finance institution.

- iv.
- v

Cheque clearing. Lender of last resort.

It manages the accounts and debts of the country.

CBN manages the banking supervision and examination.

II. Regulatory Functions

The regulatory functions of the CBN are mainly directed at the objective of promoting and maintaining the monetary and price stability in the economy. To perform this regulatory function, CBN formulates policies to control the amount of money in circulation, control other banks and major players in the financial market, control rates of banks credits and therefore the supply of money in the economy. The instruments used by CBN to achieve these functions are the followings.

- a. Open Market Operation (OMO)
- b. Bank Rate
- c. Rediscount Rate
- d. Direct Control of Bank's Liquidity e. Direct Control of Bank Credit
- f. Special Deposits
- g. Moral Persuasion
- h. Minimum Cash Ratio.

III. Developmental Functions

The establishment of CBN in 1959 was premised on the need to promote and accelerate the much needed economic growth and development in Nigeria, which would invariably promote the growth of the financial market. This financial market comprises the Money and Capital Markets, assistance to development banks and institutions and the formulation and execution of government economic policies.

The Money Market is the market for mobilising short-term funds with instruments such as Treasury Bills, Treasury Certificates, Commercial Papers, Certificate of Deposit (CDs), Eligible Development Stock (EDS) and Bankers' Acceptances.

The CBN plays a major role in the Capital Market, which deals with long-term funds by fostering its growth through the annual subvention granted to them.

The CBN also helps to promote and assist the development banks and institutions. These include Bank of Industry (BOI), formerly Nigerian Industrial Development Bank (NIDB), the Nigerian Banks for Commerce and Industry (NBCI), the Nigerian Agricultural Insurance Company (NAIC), the Federal Mortgage Bank of Nigeria (FMBN), the Nigerian Deposit Insurance Corporation (NDIC), the Nigerian Export- Import Bank (NEXIN) and the Securities and Exchange Commission (SEC).

In addition, the CBN is involved in the formulation and execution of viable economic policies and measures for the government. Also since

1970, the Bank has been instrumental in the promotion of wholly owned Nigerian enterprises. Thus, the recent directive to banks to set aside 10 percent of their profits before tax to finance Small and Medium Scale Enterprises can be viewed in this context.

Is there any obstacles militating against the performance of the apex bank?

1.8.3 Problems of CBN

The CBN is faced with a number of problems in the Nigerian financial sector, among which are the followings.

- a. Its inability to guide against unethical actions of commercial banks in the areas of money laundering, interbank forex exchange.
- b. Inability to curb the current rising inflation rates in the country.
- c. Lack of effective regulatory measures has led to high lending rates imposed by commercial banks on their customers.

- d. Lack of the capacity to effectively execute government economic policies.
- e. Failure to promote and encourage Nigerians to invest in Small and Medium-Scale Enterprises by not giving enough incentives.
- f. Its inability to monitor the skyrocketing foreign exchange rates in the country.
- g. Inability to promote the needed saving culture among Nigerians, which could have helped the nation's capital base.
- h. Finally, the CBN has been unable to tap into the information technology super highway of e-banking and e-commerce, which is a major prerequisite for the country to partake in the globalization activities.

SELF ASSESSMENT EXERCISE 4

Clarify the contributions of CBN to international business in Nigeria.

1.8.4 Achievements, Vision and Mission

The Central Bank of Nigeria, in its bid to curb banks' unethical actions, has periodically increased its capital base and have instituted the inter- bank foreign exchange market to check capital flight and to regulate foreign exchange rates.

CBN has also achieved a level of autonomy since the advent of the democratic dispensation in Nigeria. This is reflected in her aggressive execution of government economic policies in the areas of orientating the Nigerian populace to embrace the saving culture, the encouragement of foreign investors by creating an enabling environment/policies for ensuring macroeconomic stability and stable governance. It has to be acknowledged that the recent moves by the Central Bank to tap into the limitless opportunity derivable in the information technology world. This is reflected in the massive promotion of universal banking in the country. The CBN took the bull by the horns by first starting a restructuring and reengineering project which is perceived to tackle the business processes in its structural and instructional deficiencies to

The Central Bank of Nigeria's restructuring and reengineering involves improved reorganisation of the bank's business processes with a view to making it more efficient and proactive. It also involves restructuring the assets and liabilities of the bank to promote efficiency, restore integrity and achieve cost effectiveness. To achieve this all important restricting and reengineering, How does the apex want to pursue and achieve the structuring mantra?

CBN embarked on a project code named Project EAGLES.

Project EAGLES is the approach CBN has adopted, recognising the need to gear up its organisation and systems to address strategic issues, achieve a sharper focus on core functions and be an efficient regulator in the 21st Century.

Consequently, the vision of the CBN in the third millennium is:

To be one of the most efficient and effective among the world 's central banks in promoting and sustaining economic development.

Arising from the vision is the restructuring/reengineering code named EAGLES which stands for the following: E = Efficiency

A = Accountability G = Goal oriented L= Leadership
E = Effectiveness

S = Staff oriented

The mission of Central Bank of Nigeria arising from the vision has been captured as follows.

To be proactive in providing a stable frame-work for the economic development of Nigeria through transparent implementation of monetary policy and achieving efficient and effective price stability for a sound management of the financial system.

The restructuring/reengineering framework adopted for Project EAGLES is the Performance Driven Change mythology (PDC). This method defines and reviews the performance measurement set for each business processes to be sure that process performance is appropriately measured. The project, which kicked off some years ago, has completed its phases. The governing board of CBN has been try to justified the project. This project was embarked upon due to the need to change the entire structure of the CBN with a focus towards imbibing a strong culture using modern information technology (IT) as a springboard.

The reengineering exercise is intended to radically alter the way things are done at present, that is, work ethics and relationship both within and outside the bank, which means, making significant technological changes that will pervade the whole CBN.



1.9 Summary

You have been acquainted with sound knowledge about the necessary steps taken over the years to promote investments and exports oriented efforts for the Nigerian companies and the citizens. This has resulted in the establishment of so many organisations charged with relevant responsibilities towards the achievement of the intended. The organisations studied no doubt have been able to encourage foreign business between Nigeria and other countries. They have shown the contributions of the Nigerian government in encouraging international business with incentives like tax holidays, investment protection and others.



1.10 References/Further Readings/Web Resources

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