INTERNATIONAL BUSINESS ENVIRONMENT

UNIT -1

INTERNATIONAL BUSINESS:

"All business transaction that involves two or more countries" –daniel donells.

International business = exchange of goods & services + across national boundaries

NATURE OF IB:

- **Involvement of two countries**
  IB is possible only when there is a business transaction between two countries.
- **Language difference**
  Every country has its own language.it is mandatory for a successful businessman to know the languages of different nations.
- **Comparative more physical risk**
  The material comes from a distant place and that too from the sea route. (climate/environment/weather of sea)
- **Payment in foreign currency**
  Every country has its own different currency. Export & import to arrange foreign currency is one of the most important features of IB.
- **Government intervention**
  IB is totally monitored by the government prior approval of the government is needed before sale-purchase with a foreign country.

OBJECTIVES OF IB:

- **TO INTEGRATE ECONOMICS**
  IB is exciting because combines science and the art of business. i.e (economics-currency; Antropology- entrepreneur; statistics- sharemarket ;geography- suitable place
- **TO OFFER NEW MARKETS**
  IB offers companies new markets therefore presents more opportunities for expansion, growth, income than does domestic business alone.
- **TO FACILITATE INTERCHANGE OF IDEAS, SERVICES & CAPITAL ACROSS THE WORLD.**
  As a result, innovations can be developed and human capital can be used better. It can permit the wider variety of products.

ADVANTAGES OF IB:

- **MAXIMUM UTILISATION OF RESOURCES**
  India can export agricultural products to japan and in turn import electric goods from japan such specialization results in optimum utilization of the country resources.
- **ECONOMIC GROWTH**
  A country can export is surplus output . In order to meet growing demand scale of production is increased leading to economic growth.
- **ESTABLISHMENT OF INTERNATIONAL CO-OPERATION:**
  Due to international trade people of one country meet with people of other countries regularly. This enhances the mutual co-operation among people.
- **DEVELOPMENT OF TRANSPORT & COMMUNICATION**
  For sending information & commodities from one place to another place faster,these mediums are required.
- **HIGHER STANDARD OF LIVING**
  Indian imports petroleum life saving drugs, computer chips etc. thus IB is helpful in improving the living standard in a country.
- **EMPLOYMENT**
  IB generates employment both directly indirectly export oriented industries provide jobs to millions.
- **INTERNATIONAL BROTHERHOOD**
  The country comes closer to other countries & understands the culture, attitude &skills of people in those countries .It helps in reducing conflicts & promotes healthy relations among them.
- **GREATER COMPETITION**
  Ib enhances competition in the domestic market. they introduce new technology ,better management tools, &innovative marketing techniques.
- **UPGRADING OF TECHNOLOGY**
  This variably requires modernization of plants &machinery .such technological upgradation helps to improve efficiency of operations.

Types of International Business

• Export –Import trade
• Foreign Direct investment
• Licensing
• Franchising
• Management contract
• Joint Venture

EXPORT – IMPORT TRADE:

Indirect Exporting

- The exporting of goods and services through various types of home based exporters

• Direct Exporting

- The exporting of goods & services by the firm that produces them
- Export business is handled by someone within the firm (such as sales manager)

• Ex: BMW Toyota, Petronas

LICENSING

• A contractual arrangement in which one firm grants access to its patents, trade secrets, or technology to another.

Licensor = firm that give the patents, trade mark, product formula or technology

Licensee = firm that used the patents, trade mark, product formula or technology. Will pay royalties of license fees to licensor

• Ex: Coca cola, Disney, Pierre Cardin, Hyundai Electronics and Samsung Electronics

FRANCHISING

• A contractual arrangement in which one firm grants access to its patents, trade secrets, or technology to another and will provide operational & managerial help to franchisee

• Ex: McDonald's, Pizza Hut, KFC, Hilton 15

MANAGEMENT CONTRACT:

Arrangement in which one company contract with another company to produce product

• The company will take responsibility to market the product with their own brand after produce the product

• Company that give contract will get royalties

• Ex: Sapura Crest Petroleum assembly the
production plant in Saudi Arabia and Indonesia

JOINT VENTURE:

Two or more firm will form a partnership

- share ownership, risk, profit and control

• Ex: FORD & Volkswagen to join operation in Argentina & Brazil

• Ex: General Mills & Nestle to join operation in Europe

FOREIGN DIRECT INVESTMENT:

The participation of one country resources in another country's business.

FDI = BUYING COMPANY + EXPANDING OPERATIONS. (INVESTMENT)

DIFFERENCE BETWEEN DOMESTIC BUSINESS VS INTERNATIONAL BUSINESS:

SL.NO	PARTICULAR	DB	IB
1.	Geographical area	It is carries out with in the national country	It is carried out across borders &national/country
2.	restrictions	Very few local restrictions	Many restrictions (taxes)
3.	Culture	Less market culture of local areas & regions with in a country	Market culture widely varies among different nations & regions.
4.	Risk factor	Low	Very High
5.	Currency	Single currency	Multiple currency
6.	Human Resource	Minimum skills & knowledge	Multi strategic & multicultural knowledge
7.	Pricing	Same price is charged	Price differentiation
8.	Investment	Less capital investment	Huge capital
9.	Quality	Quality standards are low	Quality standards are very high.
10	Regulations	Only local regulations are applicable	International & host country regulations are applicable
11.	Research	Easy to conduct business research (demand analysis, customer survey)	Very difficult & costly
12.	Promotion	Direct marketing & advertising strategies are used	Advertising strategies vary from country to country due to language barriers.
13.	Nature of customers	Almost same	Variation in customer taste & preference
14.	Examples	Tata, Reliance, HDFC, Coal India	Apple, Walmart, Amway (japan), Cadbury (uk)

INTERNATIONAL BUSINESS ENVIRONMENT:

DEFINITION:

IBE is defined as the combination of social cultural, economic, political & technological environment. – Arthur Donells.

1. TYPES OF IBE:

IBE

INTERNAL ENVIRONMENT

- Organizational structure
- Production
- Finance
- Marketing
- human resource
- research & development

EXTERNAL ENVIRONMENT

social cultural
technological
political
economic

social cultural environment:

Culture = Sum total of the societal behavior.

A set of beliefs, customs, practices & behavior that exists with in population.

Attitudes of people	Feelings & tendencies (work is worship)
Demographic factor	Size of population/age/ gender/occupation
Religion	Christian / Hindus /Muslim/ Chinese /spanish
Social responsibilty	Education –England/ france
Taste & prefernce	Red-china, America-blue &greys, africa-blue (danger)latin America- purple (death)
Income & life style	Language- ford fiera (old ugly woman in Spanish.
Health & safety factor	Packaging / services/ ingredients.
Family	Group / Joint / small.

Technology:

Technology=systematic knowledge of industrial arts.

Whatsapp, email, online shopping.

Festival wishes & offer for sales in different countries.

Economic environment:

"Economic= money earning &spending"

Business decides

what products to produce

How to price them

How many people to employ

How much to pay them

How much to expand the business

Components of economic environment:

LIC=Low Income Countries($735)

Afghanistan, Nepal, Uganda, Tanzania, Somalia, Ruanda.

LMC=Low Middle Countries($736-$2995)

Yemen,viethem,srilanka,phillipines,Nigeria.

UMC=Upper Middle Countries($2996-4265)

Malaysia,Brazil,Iran,Bulgaria,Lebanon

HIC=High Income Countries(Above$4265)

USA, UK, China, German, France, Finland, Denmark, Israel, Italy.

Economic Environment=Level of GDP

- ✓ Better education
- ✓ Infrastructure & technology
- ✓ Health care

Factors of economic environment:

- **Percapita income & size of population**
- **Stages of economic development**
- **Consumption pattern**
- **Economic system**
- **Product demand analysis**
- **Competition analysis**

Economic systems are based on resource allocation

IBE-definition:

IBE is defined as the combination of social cultural, economic, political & technological environment.

-Arthur don ell

Political system:

- **Capitalism:** factors of production are privately owned (England, japan, USA)
- **Socialism:** all the economic activities of the country are controlled by the government.(China, cuba, Vietnam)
- **Mixed economy:** Both private and public sectors co-exist. (U.K, Srilanka,India)

Political environment:

Political environment=the government actions which affect the operations Of a company.

Affects of political risks:

Macro political risk

(Will affect all firms in a country)

(ex) civil wars that occurs

between Serbia, Bosnia

Micro political risk

(will affects only on specific

firms)

(ex)Disneyland Paris &

McDonalds have been

Affect by French farmers.

Factors of political environment:

- Civil war
- Declaration of emergency in the country
- Changes in the form of structure of administration

some of the countries they are encouraging foreign investors to do business.

China political system creates freedom to foreign players.

Pakistan political system creates more restriction on foreign players.

Parliament Government:

Government which establish new laws & policies.

Two party system **:** They are two parties turn controlling the government

(UK,USA)

Multi party system: several parties strong to control the government.

Single party system: one party is dominate the control the government

(Egypt, Cuba)

Technological environment:

Technological environment=changes in technology affect how a Company will do business.

"New ways of doing things which rises productivity of factor"

Examples: many appliances & instruments in the USA are designed for 110 volts, but this needs to be converted into 240 volts in countries, which have that power system.

Effects of technology:

- Increased productivity
- Introduction of new and better product & services
- Improved quality of service
- Improved competitiveness
- Reduced running cost(labour charge)
- Reduced wastage

	Before the use of technology	**After the use of technology**
communication	Letter,telephone	Email,MMS,whatsapp
Transportation	Bus & reservation system	Online,ticketing
Agriculture	Manual & animals	Tractors & machines
Education	Carried heavy books	Smart class/board

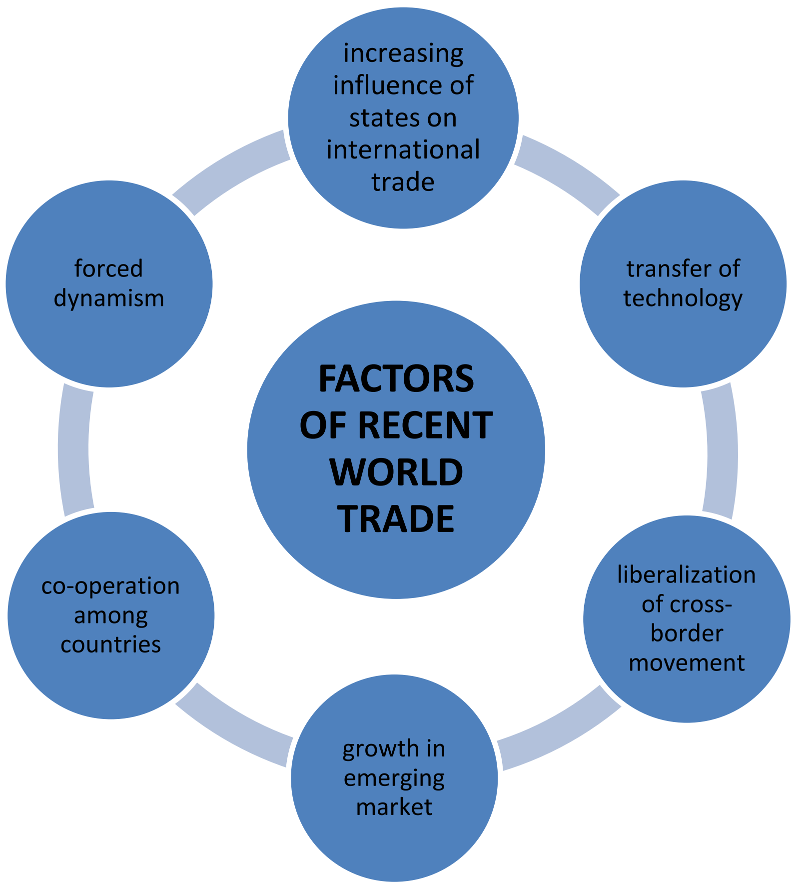
Concept of technology environment:

- ✓ New product development
- ✓ New organizational styles
- ✓ New management techniques
- ✓ New marketing techniques
- ✓ Web & internet (different method of payment credit cards & debit)

Recent world trade & foreign investment trends

Recent world trade:

"world trade means trade between two or more countries"



Forced dynamism:

International trade is forced to trends that shape the global political, cultural and economic environment.

communication → letter → telegram → telephone

↓

email ← fax ← mobile

↓

facebook → whatsapp → youtube

Co-operation among countries:

countries co-operate with each other in thousands of ways through international organizations.

(ex) groups of countries have agreed to allow foreign airlines to land.

- ❖ Canada & Russia agreements commencing in 2001 to allow polar flight.(save 5hrs between New york & Hong kong)
- ❖ Antartica limits on fishing with in its coastal waters.

Transfer of technology:

Technology transfer is the process by which commercial technology is disseminated.

- Agricultural development → hybrid, fertilizer, green garden,weather reports, new medicines innovations of new drugs
- Research development → ATM, mobile banking, net banking
- Education development → smart class,video conferencing, online teaching.
- Employment development → online interview,video conferencing,application,online test.
- Transportation development → online ticket & purchasing,reservation,tourism,OLA.

Increasing influence of states on international trade:

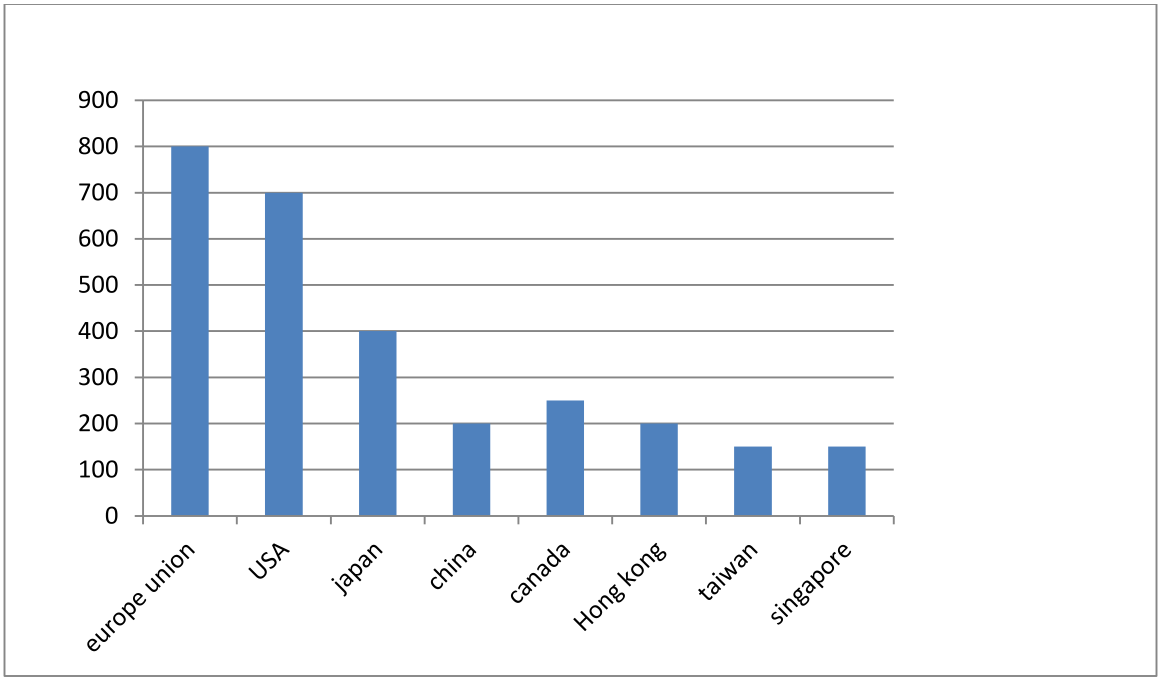
International trade is increasingly influenced by politics & government.

(ex) Global recession from 2008 to 2010 led to the U.S

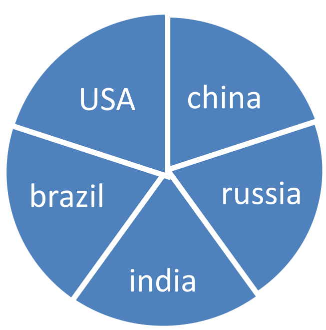
Major U.S companies like general motors (U.S.A)

Major states like china.

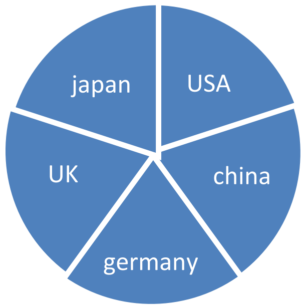
Leading export & import Companies(2017):



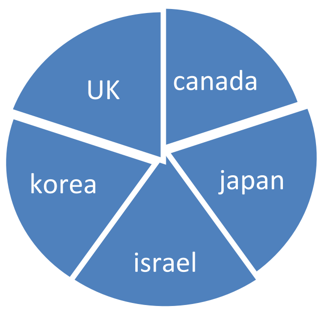
Agricultural development



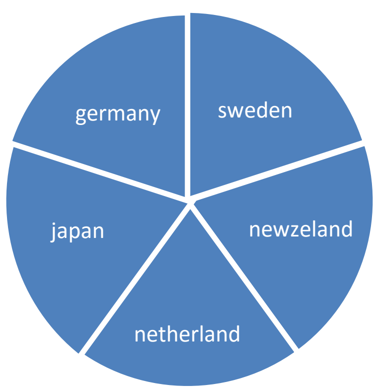
Research development



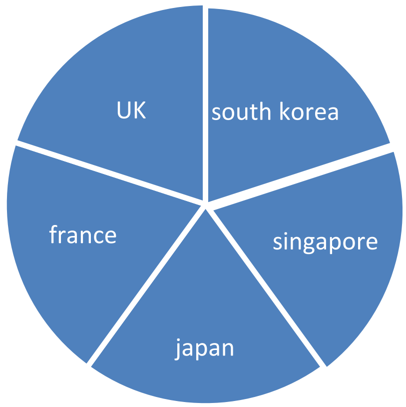
Education development



Employment development



Transportation development



Foreign investment trends:

A company from one country making a physical investment into building a factory in another country.

Country A

Country B

Receive

Capital

From

Beyond national borders

Advantages of FDI:

- Inflow of equipment and technology
- Competitive advantage and innovation
- Financial resources for expansion
- Employment generation
- Contribution to expert growth

FDI procedure in India:

FDI is permitted under the forms of investments.

- Financial collaboration

- Joint ventures and technical collaboration
- Capital market(euro issues)
- Private placements

FDI is not permitted in the following industrial sectors:

- Arms and ammunition
- Atomic energy
- Railway transport
- Coal & lignite
- Mining of iron, manganese, gypsum, gold, diamonds, copper, zinc.
- Agricultural
- Lottery business
- Housing and real estate business

FDI approval in India:

FDI approval through two routes

Automatic approval by RBI

- ✓ RBI accords automatic approval Within a period of 2weeks.
- ✓ Foreign equity up to 50% in 3categories to mining activities
- ✓ Foreign equity up to 51% in 48 specified industries.
- ✓ Foreign equity up to 74% In a categories.

FIPB

(foreign investment

Promotion board)

Normal processing time is 4 to 6 weeks

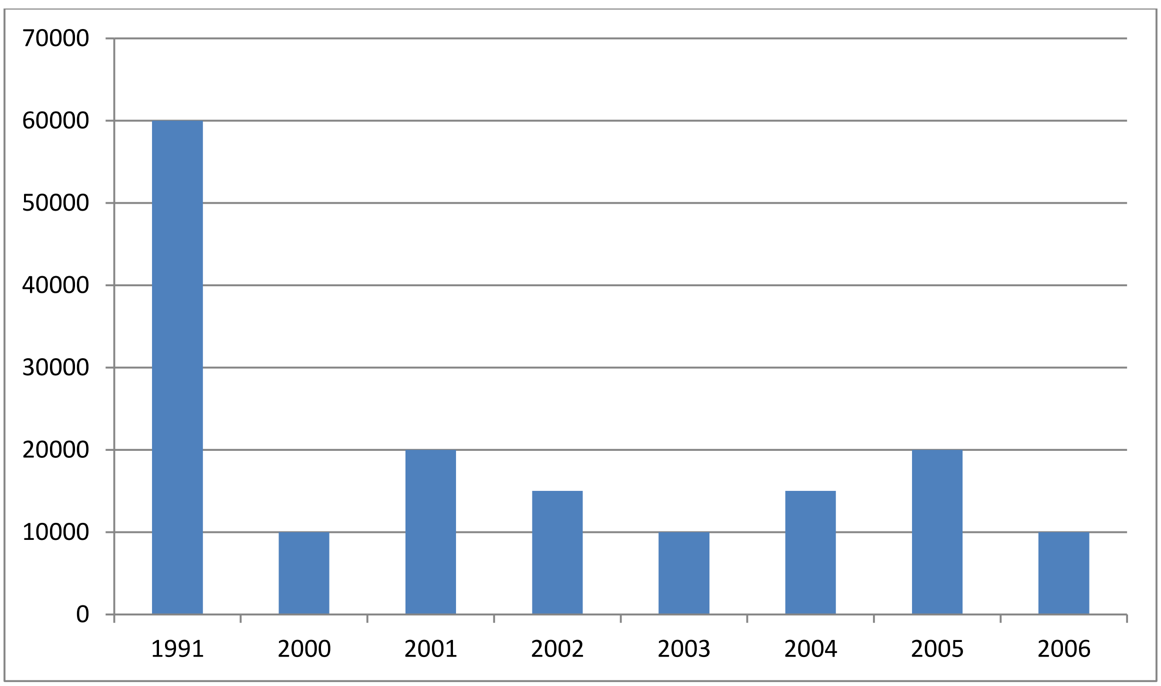
Process of non-automatic approval cases by FIPB

All types of proposal With few rejections.

Current Indian FDI limits:

Hotel and tourism	**- 100 %(** Amusement, sports)
Private sector banking	**- 49%**
Insurance sector	**- 26%**
Telecommunication	**- 49%**
Power sector	**- 100%**
Drugs and pharmaceuticals	**- 100%**
Call centres (BPO)	**- 100%**
Roads, Highways, Harbours	**- 100%**

FDI trends in India:



Share of top investing countries in FDI:

1. Maturity

2. USA

3. Japan

4. Netherland

5. UK

6. Germany

7. Singapore

Shares of top investing sectors in FDI:

1. Electrical equipment
2. Services sector
3. Tele communication
4. Transportation industry
5. Fuel (oil & power)
6. Chemicals
7. Food processing industries
8. Drug
9. Cement & gypsum
10. Metallurgical

Statement of regional wise break up for FDI:

- New Delhi
- Mumbai
- Bangalore
- Chennai
- Hyderabad

TRADE INVESTMENT PATTERN:

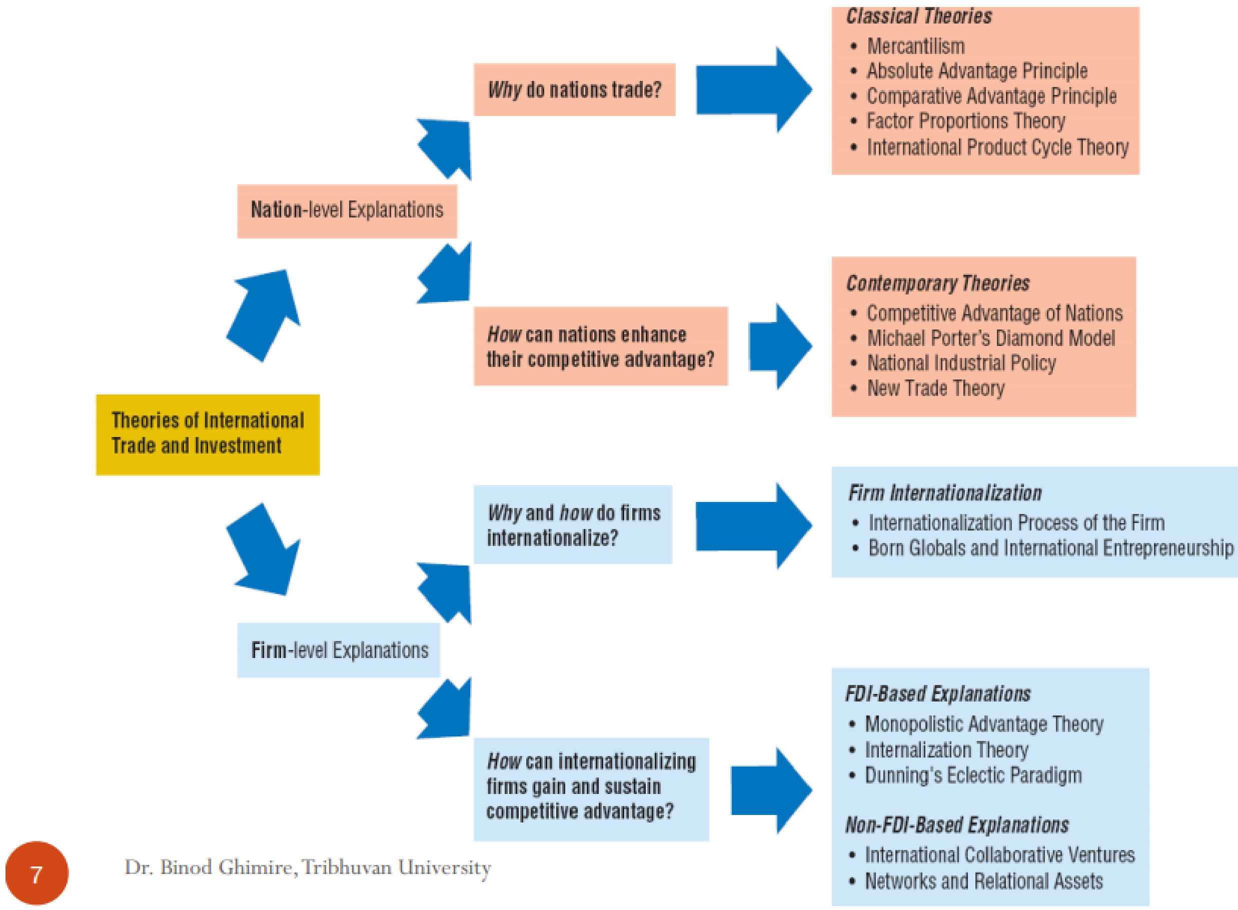
Trade investment pattern is a result of changes in economic environment &trade policies of a nation.

$$\text{Trade} = \frac{\text{price index of exports}}{\text{Price index of imports}}$$

Trade deficits: (exports<imports)

When a value of a nations exports is less than the value of its imports.

Trade surplus: (exports>imports)
When a value of a nations exports is greater than the value of its imports
TYPES OF INVESTMENT:
Business fixed investment: plants&machinery
Residential investment : new house
Inventory investment : new inventory



Mercantilism:
maximize exports and minimize imports
Absolute advantage principle:
A country should produce only those products in which it has absolute advantage or can produce using fewer resources than another country

	One ton of Cloth	One ton of Wheat
France	30	40
Germany	100	20

Example of ***Absolute*** **Advantage** (labor cost in days of production for one ton)

Comparative advantage principle:

It is beneficial for two countries to trade even if one has absolute advantage in the production of all products; what matters is not the absolute cost of production but the relative efficiency with which it can produce the product.

	One ton of Cloth	One ton of Wheat
France	30	40
Germany	10	20

Example of ***Comparative*** **Advantage** (labor cost in days of production for one ton)

Factor proportions (endowments) theory:

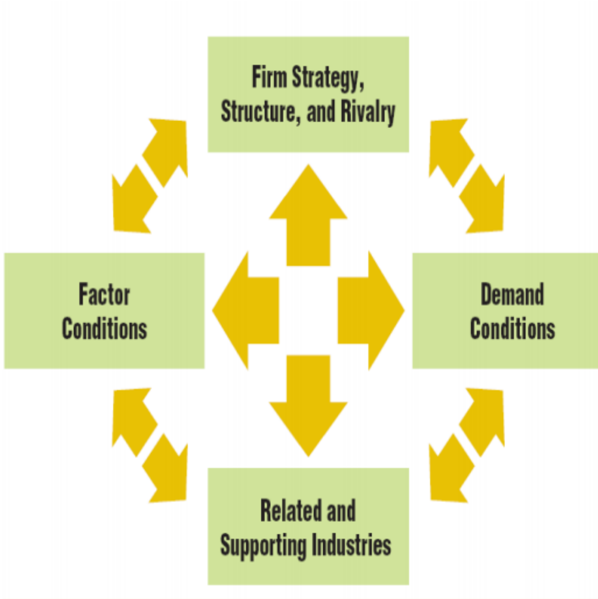
Each country should produce and export products that intensively use relatively abundant factors of production, and import goods that intensively use relatively scarce factors of production

- Examples:
- China and labor
- USA and pharmaceuticals
- Canada and electric power

International product cycle theory:

Each product and its associated manufacturing technologies go through three stages of evolution: introduction, growth, and maturity.

MICHAEL PORTER'S DIAMOND MODEL:



Firm strategy, structure, and rivalry – the presence of strong competitors at home serves as a national competitive advantage

2. Factor conditions – labor, natural resources, capital, technology, entrepreneurship, and know how

3. Demand conditions at home – the strengths and sophistication of customer demand

4. Related and supporting industries – availability of clusters of suppliers and complementary firms with distinctive competences

NATIONAL INDUSTRIAL POLICY

Proactive economic development plan enacted by the government to nurture or support promising industries sectors.

Typical initiatives:

- Tax incentives
- Investment incentives
- Monetary and fiscal policies
- Rigorous educational systems

 Investment in national infrastructure

 Strong legal and regulatory systems

(Examples: Japan, Dubai, and Ireland)

INTERNATIONALISATION PROCESS:

- ✓ **DOMESTIC PROCESS**
  Most international companies origin as domestic companies (patanjali)
- ✓ **EXPORT OPERATIONS:**
  India firms exporting textiles, spices, nuts, rice.
- ✓ **JOINTVENTURES**
  Make as a partnership firm. (Maruthi +Suzuki)
- ✓ **MULTINATIONAL OPERATIONS:**
  Many personnel decisions are still & quarters (Mcdonalds)
- ✓ **TRANSNATIONAL OPERATIONS**
  Global efficiency + local responsiveness (nestle)

FDI BASED EXPLANATIONS:

Three conditions determine whether or not a company will internalize via FDI:

1. Ownership-specific advantages – knowledge, skills, capabilities, relationships, or physical assets that form the basis for the firm's competitive advantage

2. Location-specific advantages – advantages associated with the country in which the MNE is invested, including natural resources, skilled or low cost labor, and inexpensive capital

3. Internalization advantages – control derived from internalizing foreign-based manufacturing, distribution, or other value chain activities

NON-FDI BASED EXPLANATIONS:

INTERNATIONAL COLLABORATIVE VENTURES

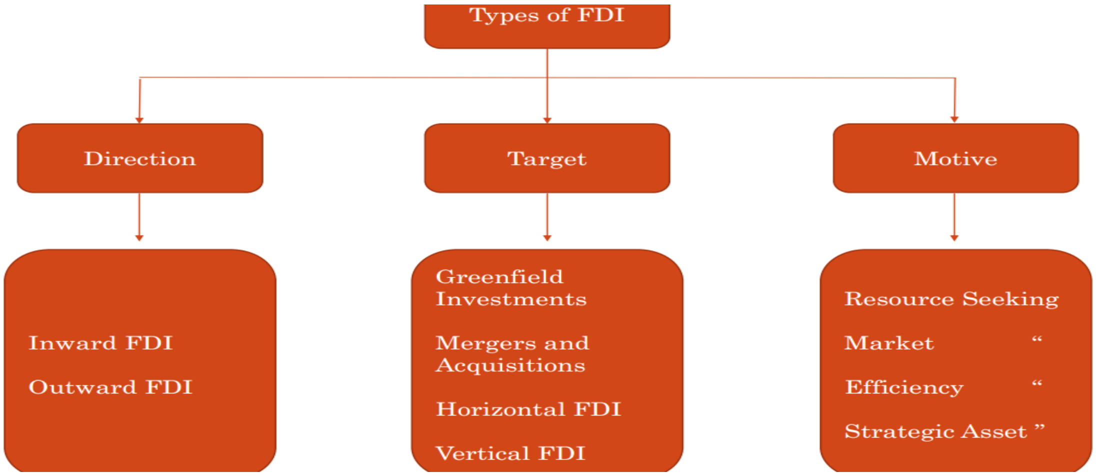
Collaborative venture: a form of cooperation between two or more firms. Through collaboration, a firm can gain access to foreign partner's know-how, capital, distribution channels, and marketing assets, and over come government imposed obstacles.

INTERNATIONAL BUSINESS ENVIRONMENT

UNIT -2

Foreign direct investment:

Foreign direct investments (FDI) are investments made by one company into another located in another country.



INWARD FDI:
when foreign capital is invested in local resources. EX – Maruthi Suzuki, Hero Honda.
OUTWARD FDI:
Called as "direct investment abroad".
• Local capital is invested in foreign resources. EX- Tata, Infosys, Videocon, ONGC, Ranbaxy)
GREENFIELD INVESTMENT:
Green field investment = new production capacity + expansion of existing production.
Direct investment in facilities or expansion of existing facilities / production.
EX- abc company h.q in U.S.A. + New office in india
MERGR & ACQUISITION:
MERGER:
Merger is the combination of two companies to form one.
Ex. A + B= C ; GOOGLE + ANDROID
ACQUISITION:
Acquisition is one company taken over by the other.
Ex. A+ B = A (flipkart+myntra)= flipkart
HORIZONTAL FDI:
Horizontal FDI occurs when a company investment is made for conducting the similar business operations in another country. (APPLE – BRUNEI)
VERTICAL FDI:
Vertical integration is the expansion of a firm into a stage of the production process other than that of the original business.
Ex- macbook – factory processor – California – body factory (Taiwan)- assembly (china)

Resource Seeking
Investments which seek to acquire factors of production that is more efficient than those obtainable in the home economy of the firm.
Example,
• Seeking natural resources in the Middle East and Africa.
• Cheap labour in Southeast Asia.
Market Seeking
Investments which aim at either penetrating new markets or
maintaining existing ones. Ex - Norwegian telecom have invested heavily in Russia.
Efficiency seeking:-
seeks to establish efficient structure through useful factors ,cultures, policies or markets.
Ex – mexico which developed its aerospace industry in less than two decades.
Strategic Asset Seeking
A tactical investment to prevent the gain of resource to a competitor.
Example,
Oil producers may not need the oil at present, but look to prevent their competitors from having it.

BENEFITS OF FDI
 Improve foreign exchange position of the country.
 Employment generation and increase in production.
 Help in capital formation by bringing fresh capital.
 Helps in transfer of new technologies and management skill.
 Helps in increase exports.
 Increases tax revenues.

HOME COUNTRY :
The country where one was born or lives permanently.
Head quarters are located in one country.
An enterprise operating in several countries but managed from one (home) country.

BENEFITS OF FDI TO HOME COUNTRY:
- Improves balance of payments
- Creates a demand for exports
- Export demand can create jobs
- Increased knowledge from operating in a foreign environment.
- Benefits the consumer through lower prices.

BENEFITS OF FDI TO MNC
MNC:
Mnc is a corporation that managers production and/ or deliver services in more than one country.
MNC = more than a firm + engages in + international activities
Ex- adidas, ABN amro , ford, philiphs etc.

LIST OF MNC IN INDIA
APPLE, CITI GROUP, NESTLE, COCA-COLA, PEPSI, HP.

BENEFITS OF FDI TO MNC (EXAMPLES APPLE COMPANY)

COMPANY NAME: APPLE
YEAR : APRIL 1, 1976
PLACE : CALIFORNIA (U.S.A)
FOUNDER : STEVE JOBS

- ✓ **EMPLOYMENT GENERATION**
  Creation of jobs , 1,37,000employes , (2019)
  506 stores spanning 24 countries
  (Australia,Belgium, brazil, Canada, china, france, germany, Italy, japan, mexico, spain)
- ✓ **AUTOMATIC IN FLOW OF FOREIGN CAPITAL**
  Raise funds in global market
- ✓ **TECHNICAL DEVELOPMENT**
  Latest financial tools & texhniques.
  Iphone, ipad, watch,ipad os, app store, app card, i- tunes, i- messages , apple pay, apple care
  3m computer – japan ; aac tech –china; aashi glass- Belgium; amkor tech –Taiwan;
- ✓ **MANAGERIAL DEVELOPMENT**
  - Hardware technical management
  - Software technical management
  - Electronics development
  - Digital distribution mgt
  - Fabulous silicon design
  - Financial technology
  - Artificial intelligence
  - Cloud computing
- ✓ **STANDARD OF LIVING**
  News paper, e-books, photos, video, health & fitness tracking watch.

THREATS & RESTRICTIONS ON MNC:

First MNC in world	First MNC in India	Indian MNC
East Indian company	IBM	Infosys
Google	Microsoft	ONGC / TATA

TATA GROUPS ON THREATS & RESTRICTIONS IN MNC

Founder: Ratan Tata
Year : 1868 place : Mumbai.

INTRODUCTION TO TATA

YEAR	INTRODUCTION ON TATA PRODUCTS
1880- 1925	Textiles, Hospitality, Steel, power, cement
1925- 50	Printing, Airlines, Chemicals
1950- 1975	Cosmetics, Air- conditioning, Tea & Coffee, IT
1975- 2000	Pharmaceuticals, Watches, Oil-drilling, Passengers cars
2000- above	Insurance,sky,photon (modem), docomo, salt,Indica,Jaquar, Taj- Hotels, Tata- tea& coffee.

STRENGTH:

- Good will of the brand
- World 4th biggest truck producer
- 2nd biggest bus producer.
- Commercial vehicles (JCB & ACE)
- High market dealers & shares.

WEAKNESS:

- Lack of reliable technology in auto –mobile.
- Lack of competences
- Nano"s perception.
- Limited international presence
- Not able to meet safety standard

OPPORTUNITIES:

- Luxury car buyers in Europe
- Steel market in Europe
- Military vehicles/ new model of each year

THREATS:

- Fuel price
- Rising price of steel, aluminium& plastic which is heavily used in vehicle manufacturing
- Competitiors: (Mercedes- benz, Toyota, ford, Chevrolet, Honda,etc.

ADVERSE EFFECT OF FDI TO HOST COUNTRIES:

HOST COUNTRY:

A country where a company that is based in another country.
Its activities are spread over in other countries.

PADINI Bhd – LARGEST MALAYSIAN FASHION RETAILER

MALAYSIA- home country (1971 ladies garments)
CHINA - host country (clothes making in china)

ADVERSE EFFECT OF FDI TO HOST COUNTRIES:

RESOURCE TRANSFER EFFECTS:

- Clothes transfer from china
- FDI bring capital, technology & Management resources.

YEAR	TRANSFER OF RESOURCE
1973	Textiles & yarn (china)
1975	Retail industry
1981	Vincci- shoes,bags,belts
1987	Children wear- miki brand
1988-90	Consignor market & seed
1991-92	1st single brand retail store
1993	Authentics

EMPLOYMENT EFFECTS

- FDI can brings jobs.
- Employee 4000 globally

BALANCE OF PAYMENT EFFECTS

- FDI can help a country to achieve a current account surplus.
- 140 stores in market.

EFFECT ON COMPETITION & ECONOMIC GROWTH

- Promotes competition in national & international markets
- Distribution of goods & growth of economy. (Cambodia, Indonesia, Bahrain, Brunei, Myanmar, Oman, Qatar, Thailand, UAE)

AVAILABLITY OF MODERN TECHNOLOGY:

- Implementation of new product & services
- Watches, Sun- glasses, Poly- Rayon, cotton poplin, coats, suits.

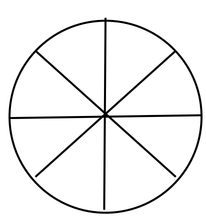
REASON FOR INDIA SEEKING FDI:

YEAR : 1991 FDI CREATED BY : Dr.MANMOHAN SINGH &P.V. NARASIMMA RAO

WHY FDI:

- Increases productivity
- Improves efficiency of resources
- Promotes innovation
- Triggers technology transfer
- Assist capital formation

MAJOR SECTOR FOR FDI IN INDIA:



MAJOR MNC UNDER FDI IN INDIA:

- ACCENTURE
- SKODA
- LG
- APPLE
- FORD
- SAMSUNG
- HYUNDAI
- REEBOK

TOP INVESTING COUNTRIES IN INDIA:

1. MAURITIUS
2. SINGAPORE
3. UK
4. JAPAN
5. USA

WHY INVEST IN INDIA:

- India is the largest & 2nd most populous country in the world
- 4th largest economy in the world term of PPP(purchasing power party)
- Skilled managerial & technical manpower the best available in the world
- Transparent environment that guarantee of security.

HURDLES FOR FDI IN INDIA:

- Lack of adequate Infrastructure
- Lack of decision- making authority with the state government
- Limited scale of Export zones
- Rationalizing labour laws
- corruption

INTERNATIONAL BUSINESS ENVIRONMENT

UNIT-3

WORLD FINANCIAL ENVIRONMENT:

World financial environment = international money + monetary asset (foreign currency + foreign deposits + investment + assets)

Financial environment includes financial market.

Financial market means where financial securities (stock, bonds, commodities ,valuable metals) exchange at efficient market price.

Functions of financial environment:

- To link the savers & investors
- To monitor the performance of investment
- To achieve optimum allocation of risk bearing
- To makes price related information
- To promoting the financial deepening &broadening

STRUCTURE/ COMPONENENTS OF FINAMCIAL ENVIRONMENT :

1. **FINANCIAL MARKET:**
   Financial market is a place. where financial assets are created or transferred.
   - Allocation of credit& liquidity
   - Serve as intermediaries for savings
   - Help balanced economic growth
   - Offer financial convenience.

PHASES OF FINANCIAL MARKET:

MONEY MARKET	CAPITAL MARKET	PRIMARY MARKET	SECONDARY MARKET
Buying&selling of short term dept (less than 1 year original maturity)	LONG TERM DEPTgreater than 1 year)	A market where new securities are bought/sold for the 1 st time	A market where exisiting used securities are bought/sold
Ex (un organized bank,chit funds)	Ex (bonds,stocks)	New issues market	

2. **FINANCIAL INTERMEDIARIES:**
   Financial intermediaries= ultimate borrowers+ultimate lenders
   Bank – collect savings&deposits
   NBFC- Provide variety of funds/advisory services ,insurance,leasing,hire purchase)
3. **FINANCIAL INSTRUMENT**
   Wide range of securities in the market because of credit seekers are different. Ex(equity shares, preference shares, debentures)

Cash instrument : directly determine the deposit &loans
Derivative instrument: underlying assets forward option ,swap.

4. **FINANCIAL SERVICES:**
Assets management+ liability management
Borrowing,selling lending investing payments &settlements.
Ex(Mutual funds/ merchant banking)

CROSS NATIONAL CO – AGREEMENTS & WTO REGIONAL BLOCKS:

WTO- REGIONAL BLOCKS:

It is the process of trade agreement between regional countries.

Objectives of trade blocks:

- Maintaining better relations
- Reduction of trade barriers among the member countries
- Creating common currency
- Promoting free transfer of labour & capital
- Promoting higher employment
- Co-operative spirit

WTO - WORLD TRADE ORGANISATION

WTO is the only global international organization dealing with the rules of trade between nations.

Head quarters: geneva, Switzerland.
Establish date: 1 jan 1995
Participation: 153 members
Governed : ministerial conference
Aim : regulation of trade between participating countries.
Meeting: every two years
Principles of WTO: deals with agriculture, textile, clothing, banking, telecommunication.

REGIONAL TRADE BLOCS:
Trade blocs is a type of inter governmental agreement.

FREE –TRADE AGREEMENT:
Between two or more countries to establish free trade area (without tariff/capital,labour)

Ex - Australia has seven FTAs currently in force with New Zealand, Singapore, Thailand, US, Chile, the Association of South East Asian Nations (ASEAN) (with New Zeland) and Malaysia.

PREFERENTIAL TRADING AGREEMENT:

Gives preferential to certain products from the participating countries.

Ex - india – Mauritius= IT, TOURISM, INDIA- CHILE= organic, mushroom,plastic &rubber)

CUSTOMS UNION:

- No tariff
- No border checks
- Common external tariff
- Trade deals for whole customs union

AIM: The participant countries set up common external trade policy, to oversee trade relations with non members but in some cases they use different import quotas.

 Customs Union of Belarus, Kazakhstan, and Russia

NAFTA- NORTH AMERICAN FREE TRADE AGREEMENT

World largest free trade area.

YEAR	JAN 1 1994
Head quarters	Ottawa (Canada)
Participated countries	Canada, mexico, usa
Aim	Removal tafiff
Goods	Meat products,fruits,vegetables,live animals,
	Wine ,clothing,textiles,fuels,electrical goods
Principles	Duty-free market access Dispute settlement mechanism. Protection of intellectual property.

SAFTA- SOUTH ASIAN FREE TRADE AGREEMENT:

YEAR	6 JAN 2004
Head quarters	Katmandu
Participated countries	7 countries (

	Maldives,Nepal,Pakistan,Afghanistan,bangaladesh,Bhutan india)
Aim	Free trade movement
Goods	Agriculture, vegetables, hunting fishing

CACM- CENTRAL AMERICAN COMMON MARKET:

YEAR	15 DEC 1960
Head quarters	Guatemala city (mexico central)
Participated countries	5 countries (Guatemala,hondwas,elsalvador,Nicaragua,costa rica
Types	Customs union
Goods	Corn & coffee

COMMON MARKET:

Free movement of resources between the member countries.

Group formed by countries within a geographical area to promote duty free trade and free movement of labour and capital among its members.

- No barriers of trade and group has common external trade policy
- Eg: The South American group of Argentina, Brazil, Paraguay,Uruguay

OPEC- ORGANISATION OF THE PETROLEUM EXPORTING COUNTRIES:

YEAR	14 SEP 1960
Head quarters	Vienna , (Australia)
Participated countries	14 counties (iran,Iraq,Saudi,Libya,Qatar,Indonesia,kuwaith,etc)
Principles	To secure fair and stable price for petroleum producers. Proper price and regular supply for petroleum consuming nations.
Goods	Oil producing countries

REGIONAL BLOCS:

EU –EUROPEAN UNION

The world's largest trading bloc

- Formed from the 'Treaty of Rome' in 1957
- It comprised of 6 members-Germany, France, Italy,Belgium, Netherlands and Luxemburg
- At present 27 members

Objectives

- Setting up a common market for all goods & services

by eliminating all trade barriers

- Promoting free trade among the members.
- Closer relations between the member states.

ASEAN: ASSOCIATION OF SOUTHEAST ASIAN NATIONS

YEAR	8 AUGUST 1967
Head quarters	INDONESIA
Participated countries	10 Countries (Malaysia,philpphines,Singapore,Thailand,brunei,Myanmar,Cambodia,viet nam
principles	Discuss issues peacefully.

	Protection of regional peace and stability. Cultural Development among its members. Social Progress. Accelerating Economic Growth.

ALADI – (Spanish abbreviation)

LAFTA- LATIN AMERICAN FREE TRADE AGREEMENT

YEAR	12 AUG 1980
Head quarters	Monte vido (Uruguay (north argentina)
Participated countries	13 (argentina,brazil,chile,Colombia,panama,cuba,mexico,paraguvay,peru, Uruguvay,venezula)
Principles	Balanced socio-economic development Establishment of a latin American common market
Goods	

SAARC(South Asian Association for Regional Cooperation)

- It was established on 8thDecember 1985.
- It consists of nations of South Asia that includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Srilanka.
- SAARC focus on areas such as Science and Technology, agricultural and rural development, tele-communication, postal services etc.
- SAARC members signed an agreement called SAPTA.
- This agreement was signed to provide a framework for the exchange of trade concessions.
- It aims at accelerating the process of economic and social development in member states.
- Afghanistan became the eighth member of this group in 2007.

TARIFF AND NON- TARIFF BARRIERS:

TARIFF:

Tariff means ‘Tax’ or ‘duty’.

Tariff = tax+imports&exports

Duty to be paid on a particular class of imports & exports

TARIFF BARRIERS:

SPECIFIC DUTY:

Physical characteristics of goods . weight& measurement of a commodity. Ex barrel of oil.

ADVALOREM DUTY:

According to the value/fixed percentage of value of a commodity. Ex artwork/ornament/antiques

COMBINED /COMPOUND DUTY:
combined = specific+ compound (value10%+ kilogram 15%) .Ex metal.

SLIDING SCALE DUTY:

Variable prices for products &services

Taxes based on customer ability to pay. Ex – medical industry.

COUNTERVAILING DUTY:

Imposed on imported products(by the importing country) & tax concessions iin the country of origin.

Domestic demand towards cheaper imported goods

REVENUE TARIFF:

To provide revenue to the home govt. Ex- luxury goods/tasmac

ANTI DUMPING TARIFF:

Exporters will sell their goods low price to capture the market.

PROTECTIVE TARIFF:

Protecting a domestic industry from the foreign competitors.

NON TARIFF BARRIERS:

Non- tariff barriers do not affect the price of the imported goods, but only the quantity of imports.

Important non tariff barriers are :

1. **LICENSES:**
   License is granted by the government, and allows the importing of certain

goods to the country.

2. **VOLUNTARY EXPORT RESTRAINS(VER)**:

These type of barriers are created by the exporting country rather than the importing one.

These restrains are usually levied on the request of the importing company.

eg. Brazil can request Canada to impose VER on export of sugar to brazil and this helps to increase the price of sugar in Brazil and protects its domestic sugar producers.

3. **Quotas:**
   under this system, a country may fix in advance, the limit of import quantity of

commodity that would be permitted for import from various countries during a given period. This is divided into the following categories:

a) Tariff quota: certain specified quantity of imports allowed at duty free or at a reduced rate of import duty. A tariff quota,therefore, combine the features of a tariff and import quota.

b) unilateral quota: the total import quantity is fixed without prior consultations with the

exporting countries.

c) bilateral quota: here quotas are fixed after negotiations between the quota fixing importing country and the exporting country.

d) multi lateral quota: a group of countries can come together and fix quotas for each country.

4. **Product standards:**

here the importing country imposes standards for goods. If the standards are not met, the goods are rejected.

5. **Product Labeling:**
   certain countries insist on specific labeling of the products.

Eg. EU insist on products labeling in major languages in EU.

6. **Packaging requirements:** certain nations insist on particular type of packaging of goods.

Eg. EU insist on packaging with recyclable materials.

MERGER & ACQUISITION:

MERGER:

Merger is the combination of two companies to form one.

Ex. A + B= C ; Hero+Honda= HERO HONDA

ACQUISITION:

Acquisition is one company taken over by the other.

Ex. A+ B = A (flipkart+myntra)= flipkart

TYPES OF MERGER:

HORIZONTAL MERGER:

A merger occurring between companies in the same industry.

Ex- pepsi_+ coca cola = pepsico; lipton+ brookebond = brooke bond lipton

VERTICAL MERGER:

Two companies producing different goods& services for one specific finished goods.

Ex- disnep+ pixar = (mass media +computer animation)

CONGLOMERATE MERGER:

Totally unrelated business activity.

Ex- disnep+ ABC= DishnepABC

CONCENTRIC MERGER:

Which are into similar type of business.

Ex- citi + travelers= citi group

ACQUISITION:

TYPES OF ACQUISITION:

FRIENDLY ACQUISITION:

Friendly terms under both companies. Ex- Johnson & Johnson + crucell (medical comp+ bio technology)

REVERSE ACQUISITION:

A private company take over the public company. Ex- clearwire (wireless broadband) +xohm

HOSTILE ACQUISITION:

The entire process is done by force. Ex- oracle + peoplesoft

DIFFERENCE BETWEEN MERGER & ACQUISITION:

MERGER	ACQUISITION
Retain name& brand ,two organization in to one	It cant retain buying one organization by another
Mutual decision	Friendly take over/hostile takeover
Expensive	Less expensive
Dilution of ownership	Acquirer does not dilution of ownership
Merger stakeholders can increase their networth mutual benefits	Buyers cannot raise their enough capital savings from loss

REASON FOR MERGER& ACQUISITION:

- MAXIMISING PROFITS
- FUTURE GOALS
- EXPANSION OF BUSINESS
- INCREASE MARKET SHARE
- DIVERSIFICATION OF RISK
- GOODWILL
- PRODUCT IMPROVEMENT
- ECONOMIC OF SCALE

WHY DO MERGER & ACQUISITION FAIL?

Finance	Technology	Culture	Region	Size	Process	Core Values	Others
Timing of investment	New company culture	Language barriers	Geographic	Unsuitable target size	Regulatory issues	Ego clash	Lack of experience
Wrong valuation	Firm misleading	Poor strategic fit	Attitudes& values	Lack of communication	Failure of top mgt	HR issues	Over estimation

PROCESS OF MERGER & ACQUISITION:

- Approval of BOD
- Information to the stock exchange
- Application in the high court
- Shareholders & creditors meetings
- Sanction by the high court
- Filling of the court order
- Transfer of asset& liabilities
- Payment by cash & securities

STAGES INVOLED IN MERGER & ACQUISITION:

1. **CORPORATE STRATEGY DEVELOPMENT**
   - Summary of target& deal rationales
   - Valuation range & transaction budget
   - Target approach
   - Profit margin
   - Geographic location/customer base

2.ORGANISING FOR ACQUISITION

- Current financial statement
- Offer good value
- Agree on key deal terms
- Skills , knowledge & capabilities
- Sign of business line president

3.DEAL STRUCTURING AND NEGOTIATIONS

- Financial due diligence
- HR due diligence
- TAX due diligence

4.POST ACQUISITION INTEGRATION

- Agreement on financial deal terms
- Legal documentation/purchase agreement

5.POST ACQUISITION AUDIT

- Communication plan
- Assumption of legal rights.

INTERNATIONAL BUSINESS ENVIRONMENT

UNIT-4

Foreign exchange market mechanism: determinants of exchange rate; Euro-currency Market; Offshore financial Centers; International Banks; Non-banking financial Service Firms; Stock Market.

FOREIGN EXCHANGE MARKET

Foreign exchange market is a place where foreign moneys are bough & sold"- kindleberger

Forex market = International Monetary Exchange

Ex : If an Indian importer imports goods from us and has to make payments in USD ,it will approach forex market to buy USD to INR

CHARACTERISTICS OF FOREX:

- ✓ Foreign market is the world's largest financial markets.
- ✓ WORKS 24* 5 STARTS ON Monday in Sydney and ends on Friday in newyork.
- ✓ Daily turnover amount to$ 6 trillion.
- ✓ Participants- financial firms, mutual funds,investors
- ✓ Major markets: US,UK, Europe, Australia, Japan, Hongkong, Singapore
- ✓ Electronic market: does not have physical place – electronically linked netwoks of banks
- ✓ Geographical dispersal : not to be found in one place.
- ✓ Transfer of purchasing power: transfer of purchasing power to ne country to another.
- ✓ Intermediary: intermediary between buyers &sellers.

MAJOR CURRENCIES OF THE WORLD:

COUNTRY	CURRENCY SYMBOL	% OF VALUATION IN CURRENCY
USA	USD $	87%
EUROPEAN	EURO €	33.4%
JAPAN	YEN ¥	23%
BRITTAIN	POUND £	11.8%
AUSTRALIA	DOLLAR $	8.6%

CLSSSIFICATION OF FOREX:

1. **SPOT MARKET:**
   Which sale and purchase transaction are settled with in two days of the deal. Ex- commercial banks, brokers.
2. **FORWARD MARKET:**
   Deals for sale & purchase of foreign currency at some future date after 90 days of the deal. Ex – traders, speculators.

PARTICIPANTS IN THE FOREX MARKET:

All scheduled commercial banks
RBI
Corporate treasures
Public sector/ government
Exchange companies.

interbank brokerage houses
resident Indians
non residents
money charges

EXCHANGE RATE :

The rate at which one currencies is converted in to another.

Exchange rate = how they are set

STRUCTURE OF FOREIGN EXCHANGE RATE:

Client buys $ with €

Local bank

Brokers ◄ main banks inter bank market (purchase &sales of big multinational company)

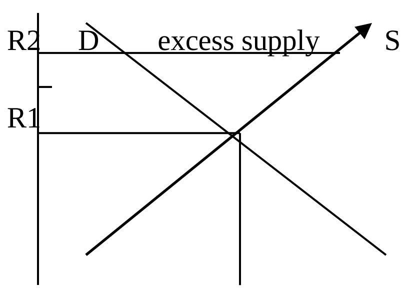
Local bank

Client buy € with $

FACTORS INFLUENCING EXCHANGE RATE:

1. SUPPLY & DEMAND :
   If buyers exceed sellers, prices go up
   If sellers out number buyers, prices go down.
2. Central bank policy
3. Interest rates
4. Trade balances : imports & exports)
5. Political factors : elections &policy changes
6. Market sentiments: expectations & rumors
7. Unforeseen events: terrorism & natural disaster

FOREIGN EXCHANGE MARKET MECHANISM:
DIAGRAM:
(Exchange rate in RS)



R1 = D = S
R2 = D< S
R3= D > S

R3

S Excess demand D

(Demand& supply of foreign exchange equilibrium rate)

METHODS OF INTERNATIONAL PAYMENTS (OR) FOREIGN EXCHANGE MECHNISM:

1. Bill of Exchange:

The bill of exchange is a commonly used instrument in international payments. It is an order from the drawer (creditor) to the drawee (debtor) to pay the specified sum of money on demand or on some specified future date.

2. Bank Draft:

Bank draft is an order of a bank to its branch or some other bank to pay the bearer the specified amount. The debtor (importer) in foreign transaction gets a bank draft from the bank and sends it to his creditor (exporter) who in turn, collects the specified amount from the bank in his own country.

3.Letter of Credit:

A letter of credit is an assurance from the writer of the letter (a commercial bank) to the creditor on behalf of the debtor that the former will receive payment.

In the international transaction, for example, an importer may arrange a letter of credit from his commercial bank according to which the exporter may draw bill on the bank rather than on the importer.

4. EXPORT OF GOODS:

A country pays for its imports by means of export of goods. The payment is made not in terms of gold or currency, but in terms of commodities.

5. Export of gold:

This method was prevalent during the periods of gold standard. But this system is not adopted now. Here gold will be considered for exchanging goods between countries.

EURO CURRENCY MARKET:

INTRODUCTION:

- **Euro** is the official currency of the **European Union.**

- Eleven member states have adopted it collectively known as **Eurozone.(Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, etc.)**
- Taking official estimates of 2007 GDP, the Eurozone is the **2nd largest econom**y in the world.
- The euro was introduced to world financial markets as an currency in 1999 and launched coin and Banknote on 1st, January 2002.
- All nations that have joined the EU since the 1993 implementation of the Maastricht Treaty
- The euro sign (€) is the currency sign used for the euro the official currency of the European Union(EU).
- The design was presented to the public by the European Commission on 12th December , 1996**.**

Advantages of euro:

✓ Increased trade across borders
✓ Increased cross border employment
✓ Lower interest rate
✓ Expanding market for business
✓ Financial market stability

EURO CURRENCY MARKET = deposit/ loan market (for) + foreign currencies

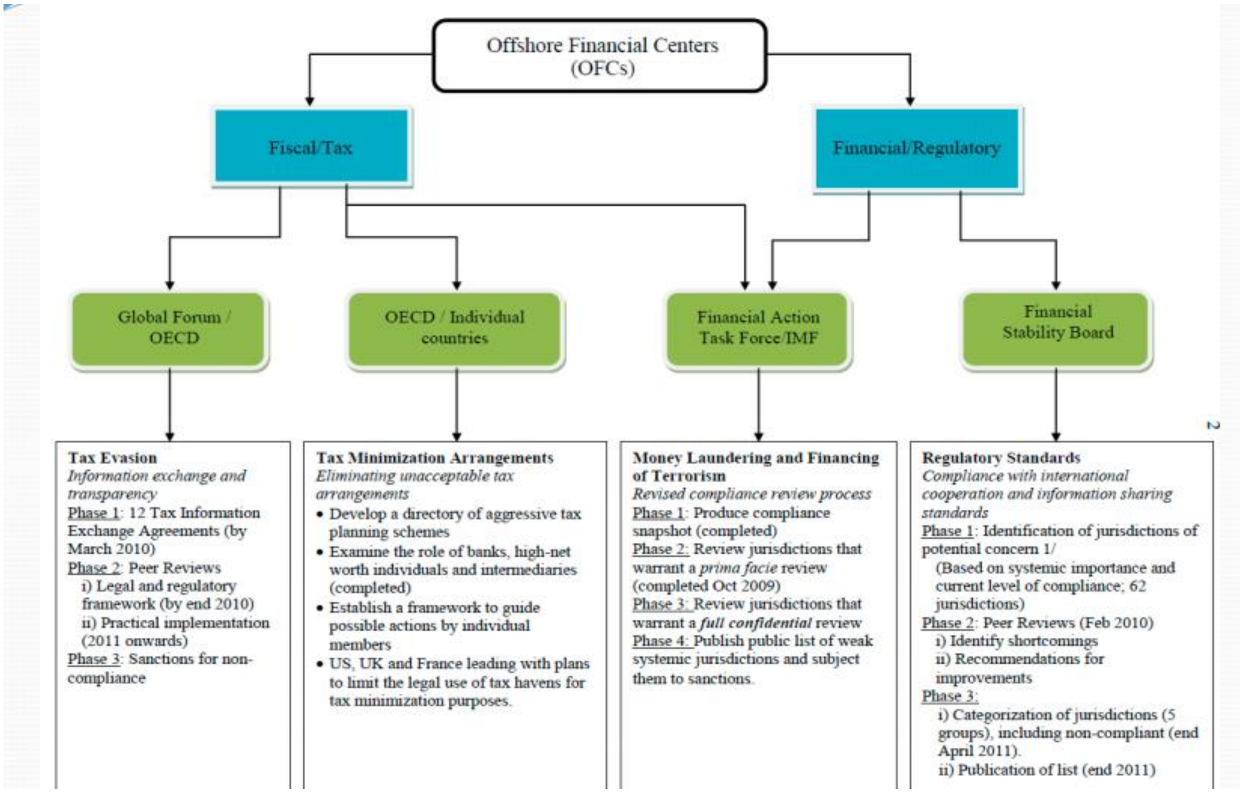
OFF SHORE FINANCIAL CENTERS:

- Bahrains, hongkong , Lebanon, panama, Singapore, UAE which offers little or government interference in legitimate business & financial centers.
- OFC also offer very low/ zero tax rates
- Provide excellent communication facilities
- OFC provide finance, insurance ,brooking, holding company, head office services etc

CHARACTERISTICS OF OFC:

ancial center:

- Political stability
- Close geographical proximity to wealthy countries
- Well educated workforce
- Some natural amenities that make it possible to develop its potential as a tourist attraction
- A political willingness to pass bank secrecy laws and at the same time be prepared to invest in security infrastructure to assure personal safety and to address the potential to attract unsavory elements.



INTERNATIONAL BANKS:

International banking is a types of banking that across international borders.

It is offer financial services like lending opportunities & payment accounts to foreign clients.

DEFINITION:

International banking is " when a bank headquartered in one country extend credit to resident of another country" - international settlement committee

ROLE OF INTERNATIONAL BANK:

- Raising capital
- Advisory services
- Brokerage services
- Currency exchanges
- Financial research

Types & Leading International Banks:

HSBC :

This is a bank based in England. The bank has offices in 80 countries, and has 1,800 locations in the U.K. It provides private banking and consumer finance, along with corporate banking and investment services.

World bank:

The World Bank is a family of five international organizations that make leveraged loans to developing countries. It is the largest and most famous development bank in the world and is an observer at the United Nations Development GroupThe bank is based in Washington, D.C. and provided around billion in loans and assistance to "developing" and transition countries in the 2014 fiscal year. The bank's stated mission is to achieve the twin goals of ending extreme poverty and building shared prosperity. Total lending as of 2015 for the last 10 years through Development Policy Financing was approximately $117 billionIts five organizations are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). The first two are sometimes collectively (and confusingly) referred to as the World Bank.

The World Bank Group consists of

- the International Bank for Reconstruction and Development (IBRD), established in 1945, which provides debt financing on the basis of sovereign guarantees;
- the International Finance Corporation (IFC), established in 1956, which provides various forms of financing without sovereign guarantees, primarily to the private sector;
- the International Development Association (IDA), established in 1960, which provides concessional financing (interest-free loans or grants), usually with sovereign guarantees;

- the International Centre for Settlement of Investment Disputes (ICSID), established in 1965, which works with governments to reduce investment risk;
- the Multilateral Investment Guarantee Agency (MIGA), established in 1988, which provides insurance against certain types of risk, including political risk, primarily to the private sector.

Asian Development Bank:

The Asian Development Bank (ADB) is a regional development bank established on 19 December 1966, headquartered located in Philippines. The company also maintains 31 field offices around the world to promote social and economic development in Asia.From 31 members at its establishment, ADB now has 67 members, of which 48 are from within Asia and the Pacific and 19 outside. The ADB was modeled closely on the World Bank, and has a similar weighted voting system where votes are distributed in proportion with members' capital subscriptions.

HSBC:

SBC Holdings plc is a British multinational banking and financial services holding company, tracing its origin to a hong in Hong Kong.It is the world's seventh largest bank by total assets and the largest in Europe.HSBC Holdings is one of the top 20 banks in the world in 2017 and is among the largest banks by assets- at $1 trillion. The bank is present in at least 6,000 locations, in more than 70 countries where it operates under it’s over a dozen subsidiaries.

Industrial and Commercial Bank of China;

Industrial and Commercial Bank of China was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company. On 27 October 2006, the Bank was successfully listed on both Shanghai Stock Exchange and Stock Exchange of Hong Kong Limited. Through continuous endeavor and stable development, the Bank has developed into one of the top large listed banks in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness and providing comprehensive financial products and services to 5,784 thousand corporate customers and 530 million personal customers.

BANK OF AMERICA:

Bank of America is one of the world's largest financial institutions, serving individuals, small- and middle-market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk management products and services. The company serves approximately 56 million U.S. consumer and small business relationships. It is among the world's leading wealth management companies and is a global leader in corporate and investment banking and trading.

Swiss Bank Corporation:

Swiss Bank Corporation was a large integrated financial services company located in Switzerland. Prior to its merger, the bank was the third largest in Switzerland.

Types of International Banking Offices

A correspondent bank relationship- Established when two banks maintain a correspondent bank account with one another. The correspondent banking system provides a means for a bank’s MNC clients to conduct business worldwide through his local bank or its contacts.

A representative office- A small service facility staffed by parent bank personnel that is designed to assist MNC clients of the parent bank in its dealings with the bank’s correspondents. It is a way for the parent bank to provide its MNC clients with a level of service greater than that provided through merely a correspondent relationship.

A foreign branch bank- Operates like a local bank, but legally it is a part of the parent bank. As such, a branch bank is subject to the banking regulations of its home country and the country in which it operates. The primary reason a parent bank would establish a foreign branch is that it can provide a much fuller range of services for its MNC customers through a branch office than it can through a representative office.

A subsidiary bank- is a locally incorporated bank that is either wholly owned or owned in major part by a foreign subsidiary. An affiliate bank is one that is only partially owned, but not controlled by its foreign parent. Both subsidiary and affiliate banks operate under the banking laws of the country in which they are incorporated.

NON BANKING FINANCIAL SERVICES

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business

NBFC= FINANCIAL INSTITUTIONS + BANKING SERVICES + BANKING LICANSE
(Are) (provide) do not hold

FUNCTONS OF NBFC:

- Loans & credit facilities
- Private education funding
- Retirement planning
- Underwriting stocks & shares
- Provide advice on merger& acquisation

Classification of non banking financial companies

Leasing companies:

Leasing companies engage in financing the purchase of tangible assets. The leasing company is the legal owner of the goods but ownership effectively conveyed to the lessee. Leasing companies providing financial assistance to the lessor and lessee.

Ex:

Bajaj finance, shriram finance, Sundaram finance.

Hire purchase finance:

Hire purchase finance is a method of buying goods through making installment payments over time by giving the financial support to the hirer. The term "hire purchase" originated in the United Kingdom. Installment amount will be paid through some financial institution and banking.

Ex: Indus finance, apple finance.

Asset finance companies:

Asset based finance companies providing different type of loan to public to purchase different type of instruments such as automobile, lathe machine, tractor and generator etc..This type of funding is great for startup companies, refinancing existing loans, financing growth, mergers and acquisitions.

Ex: dharani finance, margo finance, and HDFC.

Investment companies:

Investment companies are business entities, both privately and publicly owned, that holding and managing securities for investment. Investment companies investing money on different securities on behalf of clients and also they are rentering following services such as investment services, which include portfolio management, recordkeeping, custodial, legal, accounting and tax management services.

Ex merchant banker

Venture capital company:

Venture capital Company financing that providing loan to startup new companies and small business for growth. Venture capital companies providing different type of capital called startup capital, seed capital, establishment capital ect…this venture capital otherwise called as RISK capital also.

Ex accel venture capital, Blume venture

House finance companies:

It is a financing companies which provide loan to construct a new building and to renewal of existing building.Ex: HDFC home loan, SBI Home loan.

Mutual fund companies:

A **mutual fund**companies doing process made up of a pool of **funds** collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Ex: SBI Mutual fund and HDFC mutual fund.

Chit fund companies:

A Chit fund is a kind of savings scheme practiced in India**.**under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of grain instead) by way of periodical installments over a definite period and that each such subscriber shall get their saving amount and high interest at the end of agreement period.

Ex: DhanalakshmiSrinivasan chit funds pvt. ltd., Gokulam Chit Funds

Services provided by NBFCs:

NBFCs provide range of financial services to their clients. Types of services under non-banking finance services include the following:

1. Hire Purchase Services
2. Leasing Services
3. Housing Finance Services
4. Asset Management Services
5. Venture Capital Services
6. Mutual Benefit Finance Services (Nidhi) banks.

The above type of companies may be further classified into those accepting deposits or those not accepting deposits.

Now we take a look at each type of service that an NBFC could undertake.

Hire Purchase Services

Hire purchase is a agreement between hire purchaser and hire vendor in order to sell and buy goods in installment.

Hire purchase Assets

- Automobile products
- Luxury Goods
- Furniture Items

Hire purchase agreement parties

- Hire purchaser (Buyer)
- Hire vendor (seller)

Hero Honda Motor Finance Co., Bajaj Auto Finance Company is some of the HP financing companies.

Leasing Services

A lease is a contract between lessor (owner) and leasee (user of the assets) that transfers the right to possess specific property for certain specific period.

Housing Finance Services

Housing Finance Services means financial services related to development and construction of residential and commercial properties. An Housing Finance Company approved by the National Housing Bank may undertake the services /activities such as Providing long term finance for the purpose of constructing, purchasing or renovating any property, Managing public or private sector projects in the housing and urban development sector and Financing against existing property by way of mortgage. ICICI Home Finance Ltd., LIC Housing Finance Co. Ltd., HDFC is some of the housing finance companies in our country.

Asset Management Company

Asset Management Company is managing and investing the pooled funds of retail investors in securities in line with the stated investment objectives and provides more diversification, liquidity, and professional management service to the individual investors. Mutual Funds are comes under this category. Most of the financial institutions having their subsidiaries as Asset Management Company like SBI, BOB, UTI and many others.

Venture Capital Companies

Venture capital Finance is a unique form of financing activity that is undertaken on the belief of high-risk-high-return. Venture capitalists invest in those risky projects or companies (ventures) that have success potential and could promise sufficient return to justify such gamble. Venture capitalist not only provides finance but also often provides managerial or technical expertise to venture projects. In India, venture capital concentrate on seed capital finance for high technology and for research & development. ICICI ventures and Gujarat Venture are one of the first venture capital organizations in India and SIDBI, IDBI and others also promoting venture capital finance activities.

Mutual Benefit Finance Companies (MBFC's),

A mutual fund is a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities/bonds. Mutual funds are one of the best investments ever created because they are very cost efficient and very easy to invest in. By pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to mutual funds is diversification.

TOP NBFC IN INDIA:

- ✓ HDFC
- ✓ RELIANCE CAPITAL
- ✓ SHRIRAM TRANSPORT FINANCE
- ✓ MUTHOOT FINANCE BAJAJ HOLDING
- ✓ ADITHYA BIRLA, LIC, SUNDARAM FINANCE

DIFFERENCE BETWEEN BANK & NON BANKING

PARTICULARS	**BANK**	**NBFC**
DEFINITION	Acceptance deposits& withdrawable by cheque	NBFC cannot accept demand deposit
SCOPE OF BUSINESS	Scope of business of the bank is limited	There is no bar
LIMITATION	No non- banking activity are carried	Cannot provide checking facilities
FOREIGN INVESTMENT	74% allowed to private sector bank	Upto 100% is allowed
REGULATION	RBI act & control over the bank	Lesser control over NBFC

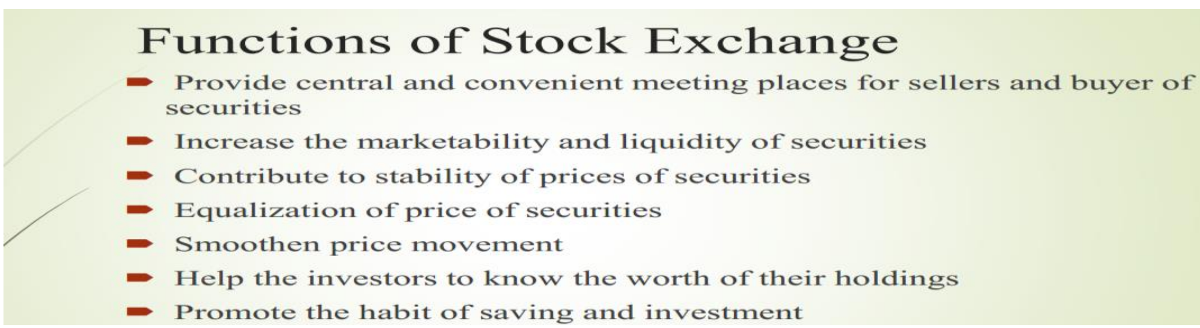
STOCK MARKET:

A Stock market is the place where buying and selling of stocks takes place.

Types of Market

1. **Normal Market :**
   - Order Traded in regular lot Size
   - For demat shares, lot size is 1 share
2. **Odd Lot Market** :
   - Used for limited physical Market
   - Order not traded in regular lot Size but both price & quantity should tally with each other.
3. **Spot Market :**
   - Different settlement periods depends on normal orders
   - Sell & Purchases takes place on same date.

4. **Auction Market** :
   - Initiated by exchange on behalf of members for settlement related reasons
   - Reasons are shortage and bad deliveries
   - Loss is recovered from members

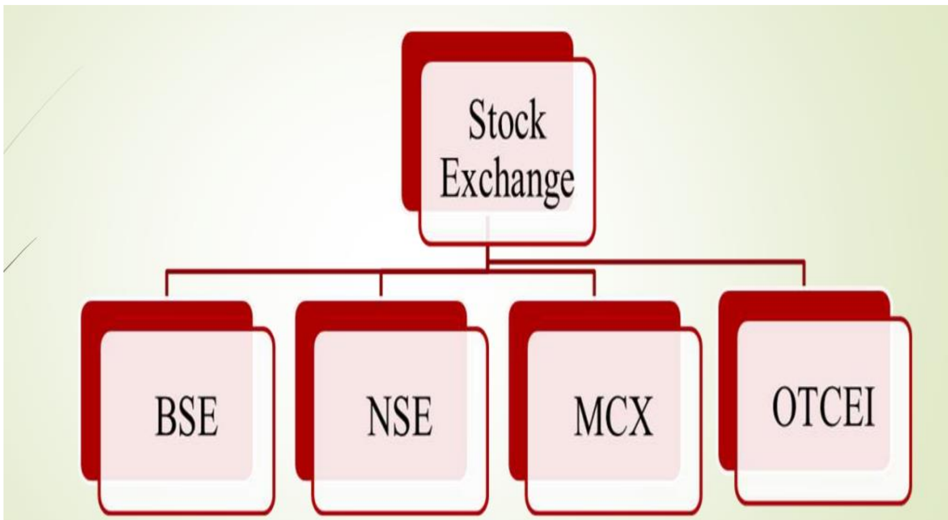


BIG STOCKS MARKETS:

- NYSE (New York Stock Exchange)
- NASDAQ-America
- Dow Jones
- S&P‘ 500
- Tokyo Stock Exchange
- London Stock Exchange
- Bombay Stock Exchange, India

 National Stock Exchange, India

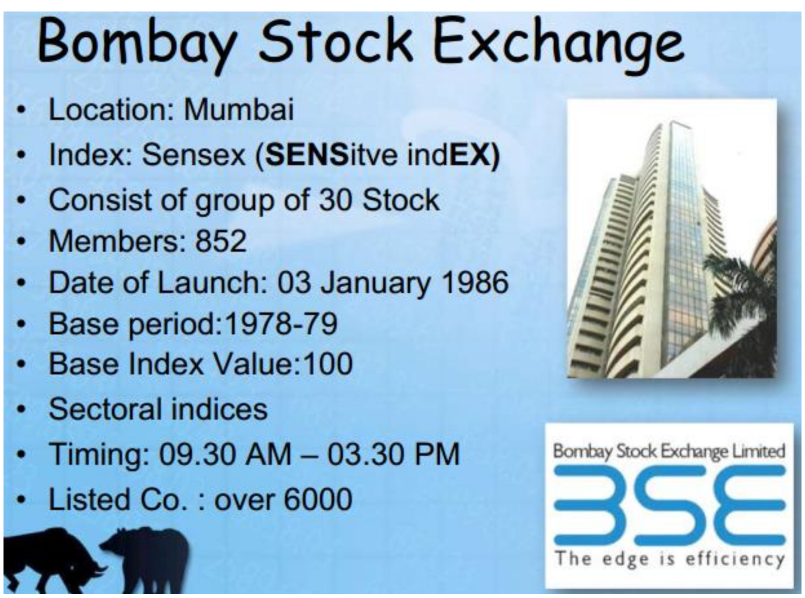
Stock Exchanges in India

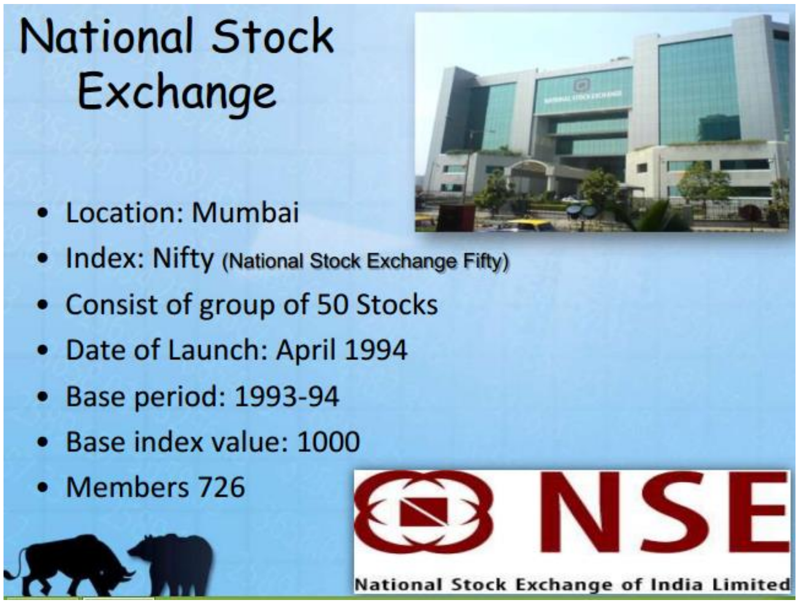


There are 22 stock exchanges in India. But, two of them are biggest.

NSE (National stock exchange) **-** is the 9th largest stock exchange in the world by market capitalization and largest in India by daily turnover and number of trades, for both equities and derivative trading.

BSE (Bombay stock exchange) **-** is the oldest stock exchange in Asia with a rich heritage of over 137 years of existence.





MULTI COMMODITY EXCHANGE OF INDIA LTD (MCX)

- Multi Commodity Exchange of India Ltd (MCX) is an independent commodity exchange based in India

- To facilitate online trading and clearing & settlement operations for

commodity futures across the country .

- MCX hold’s market share of over 80% of the Indian commodity

future market

- MCX is the world largest exchange in Silver, second largest in Gold,

Copper and Natural Gas, and third largest in Crude Oil Futures

OVER THE COUNTER EXCHANGE OF INDIA (OTCEI)

- Incorporated in 1990, setup to aid enterprising promoters in raising finance for new projects.

- To provide investors with a transparent efficient mode of trading.

- OTCEI introduced a screen based nation wide trading.

- OTCEI introduced many novel concepts to the Indian capital markets such as screen-based nationwide trading, sponsorship of companies, market making and scrip less trading.

- The first Indian stock exchange to introduce nationwide computerized screen based trading.

Stock Broker

• A stockbroker is person who is licensed to trade in shares.

• Brokers also have direct access to the share market and can act as your agent in share transactions.

• For this service they charge a fee i.e. brokerage.

What is Demat account?

 DEMAT stands for DEMATerialization.

It is process in which physical paper shares are converted into paperless (computerized) form.

Stock Market Conditions

There are two ways to describe the general conditions of the stock market:

1)BULL MARKET

2)BEAR MARKET

Bull Market -A Bull Market indicates the constant upward movement of

the stock market. A particular stock that seems to be increasing in value is described to be bullish.

BEAR MARKET

A bear market indicates the continuous downward movement of the stock market. stock that seems to be decreasing in value is described to be bearish.

Important terms in stock market and in stock trading

Open- The stock price in beginning of Day(i.e. in morning).

High - The stock price reached at the highest level in a day.

Low - The stock price reached the lowest level in a day.

Close - The stock price at which it remains after the end of market timings or the final price of the stock when the market closes for a day.

Volume - Volume is nothing but quantity.

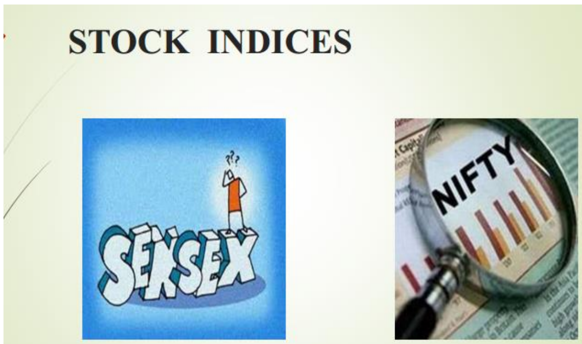
Bid - The Buying price is called as Bid price.

Offer - The selling price is called offer price.

Short Term Trading -Stock trading done from one week to couple of months is called short term.

Mid term Trading -Stock trading done from one month to couple of months, say six to eight months is called mid term trading.

Long term trading -Stock trading done form couple of months to couple of years is called long term trading.



How Sensex Index is calculated :

The formula for calculating the sensex =

(sum of Free Float Market capitalization of 30 benchmark

stocks)* Index Factor

Where;

Index Factor = 100/market cap value in 1978-79.

How Nifty Index is calculated

The National Stock Exchange (NSE) is associated with Nifty

The calculation of Nifty is same as we calculated SENSEX. But with two key

differences.

1. Base year is 1995 and base value is 1000

2. Nifty is calculation based on 50 stocks.

everything else remaining the same in niftyindex calculation as well.

Index= _Current Market Capitalisation)

Base Market Capitalisation

Multiply by Base Value

INTERNATIONAL BUSINESS ENVIRONMENT

GLOBAL COMPETITIVENESS UNIT- 5

Global competitiveness is an ability of nation to provide quality products and services at **competitive** prices thereby providing adequate returns.

Competitiveness is the comparative concept of the ability and performance of a firm, sub-sector or a country.

[redacted]

12 PILLARS OF GLOBAL COMPTITIVENESS:

□ **1st Pillar :** □Twelve pillars of index & Crime and reliability of police situation □ Wastefulness of govt. expenditure □ Transparency of govt. policy □ Favoritism in in govt. decisions, □ Judicial independence, □ Public trust of politician, □ Diversion of public funds, □intellectual) Quality of Telephone services□ Quality of Electricity supply □ Quality of Air-transport □ Quality of Port, □ Quality of Rail. □ Quality of Road, □ Overall infrastructure,

□**2nd Pillar Infrastructure Others**□ Government Debt □ Inflation □ National Savings □ Government Surplus/Deficit

□**3rd Pillar** Macroeconomic Stability Incidence of Malaria, TB

□**4th pillar: Health and primary education & Education Expenditure**□ Primary Enrollment (upto the age of 14 years) □ Quality of primary education □ Life Expectancy □ Infant Mortality □AIDS and its impact on business

9. Extent of staff training♣ Local availability of research and training services ♣ Internet access in schools ♣ Quality of Management schools ♣ Quality of math and science education ♣ Quality of the educational system ♣ Tertiary Enrollment ♣ Secondary (14 to 18 years) ♣

5th pillar: Higher education and training

Buyer sophistication□ Degree of customer orientation □ Burden of customs procedures □ Business impact of rules on FDI □ Prevalence of foreign ownership □ Tariff rate □ Prevalence of trade barriers □ Agricultural policy □ Time required to start a business □ No. of procedures required to start a business Tax rate Extent and effect of taxation Effectiveness of anti-monopoly policy Extent of market dominance Intensity of local competition

6th pillar: Goods market efficiency

Female participation in labor force Brain drain Reliance on Professional management Pay and productivity Firing costs Hiring and firing practices Rigidity of employment Non-wage labor costs Flexibility of wage determination Cooperation in labor-employer relations

7th pillar: Labor market efficiency

Venture capital availability Regulation of securities market Banking system soundness Strength of investor protection Restriction on capital flows Ease of access to loan Financing through local equity market Financial Market Sophistication

8th Pillar: Financial Market Sophistication

Foreign Market size – It is the Value of exports of goods and services.
Gross domestic product plus value of imports of goods and services, minus value of exports of goods and services. Domestic Market Size – It is the sum of :

10th pillar: Market size Willingness to delegate authority Extent of marketing Production process sophistication Control of international distribution Value chain breadth Nature of competitive advantage State of cluster development Local supplier quality Local supplier quantity

11th Pillar: Business Sophistication

Company spending on R Quality of scientific research institutions Capacity for innovation

12th Pillar: Innovation & University-indu

Utility patents Availability of scientists and engineers Government procurement of advanced tech products stry research collaboration

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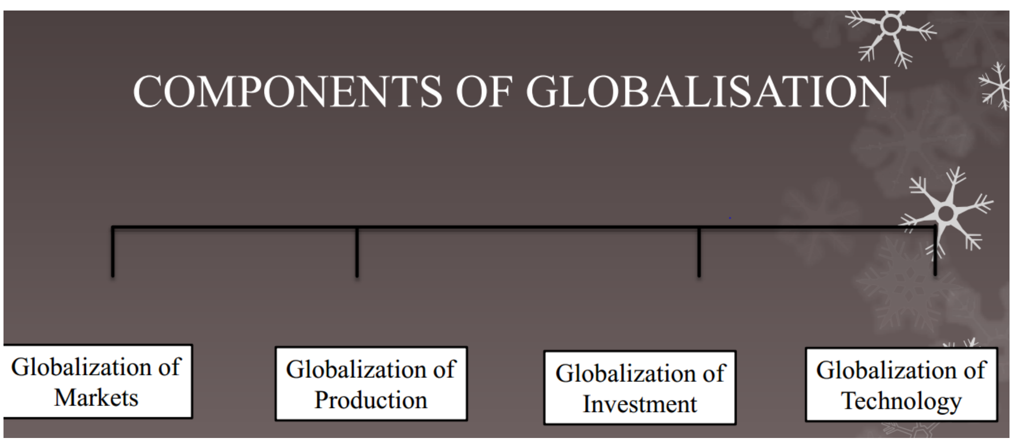

GLOBALIZATION OF MARKETS

 Globalization of markets refers to the process of integrating and merging of the distinct world markets into a single market
 EXAMPLE: Coca-Cola, Pepsi, McDonald's burgers, Levis Jeans etc.,

GLOBALIZATION OF PRODUCTION

 Globalization of production is locating the manufacturing facilities in a number of locations around the globe.

EXAMPLE: Jet airlines Boeing 777 and Swan optical

GLOBALIZATION OF TECHNOLOGY

- Latest technology and distinctive competencies
- Technological collaboration
- Usage of technology by paying royalty

Globalization of Investment

• Globalization of investment refers to investment of capital by global company in any part of the world.

Globalization of investment is also known as foreign direct investment.

GLOBALIZATION

ADVANTAGES

- Free flow of capital, technology
- Industrialization
- Production facilities throughout the world
- Increase in production and consumption
- Lower prices and high quality
- Jobs and Incomes
- Higher standard of living
- Balanced Human development
- Welfare and prosperity

DISADVANTAGES

- Kills domestic business
- Exploits human resource
- Unemployment and underemployment
- Widening gap between rich and poor
- Transfer of natural resources
- National sovereignty at stake
- Commercial and political colonialism

EXPORT MANAGEMENT

EXPORT:

The sending of goods & services produced in one country to another country.

SELLER OF GOODS $\downarrow$ EXPORTER

FOREIGN BUYER $\downarrow$ IMPORTER

EXPORT MANAGEMENT:

Export management is the use of managerial process to the serviceable area to of exports.

EXPORT CERTIFICATE FORMAT:

CERTIFICATE NO :__________

Entry no:_______________

Office to exit: means of transport/ export/ re-export

Seal no: ___________________Intact no:_____________

Container No:____________ No.of Packages:____________

Means of Transport: (Train / Wagon / Aircraft / Vehicle No)

As Entered:_____________

Issued on: ___________ Proper Officer: _______________

1. Stages in export management:

a) **Registration stage:** (exporter is required to register his organisation)
Registration of the organisation
Opening of bank a/c
Obtaining importer-exporter code no (IEC)
Obtaining sales tax no
Registration with export promotion council

b) **Pre-shipment stage:**
Approaching foreign buyers (advertising in media)
Inquiry and offer (description of goods,size,weight,quantity)
Confirmation of order (term&conditions are finalized the exporter)
Opening of letter of credit (methods of payment)
Packing & marking (goods necessary details)

c) **Shipment stage:**
Export order
Commercial invoice (contractor name/address)
Packing list
Certificate of origin
Certificate of inspection
Marine insurance policy

d) **Post-shipment stage:**
Shipment advice to importer (date if shipment/name of the vessels)
Dispatch of document
Acceptance of the bill of exchange (buyer option)
Full set of bill of lading or airway bill.

LICENSING:

LICENSE = contractual agreement where by firms can use the name ,logo,character.
Ex= tom& jerry, angry birds

LICENSOR:

Firm that give the patents, trademark ,product formula.

LICENSEE:

Firm that used the patents, trademark ,product formula. (he will pay the license fees to licensor)

LICENSING PROCESS:

- Licensor leases the rights to use intellectual property
- Licensee uses the intellectual property to create products.
- Pays a royalty to licensor
- Earns new revenues with low investment

10 FUNDAMENTALS PROVISIONS FOR LICENSING:

1. LOCATION - (specified geographic area/ specific period time).
2. Operation - (name & address of the parties)
3. Training & ongoing support - (goods details & services)
4. Fees & investment - (payment royalties)
5. Duration - (period on agreement)
6. On going fees – (renewal payments)
7. Trademark / patent/ sign.
8. Advertising & marketing.
9. Renewal rights/termination cancellation policies
10. Exit strategies.

JOINT VENTURE:

A joint venture is a business or project in which two or more companies or individuals have invested with the intention of working together.

Joint venture= two companies (based in) + two/more countries (form a)+partnership
Ex (BMW+TOYOTA)

Steps in joint venture:

Steps-1 planning (determining the product/market)
Steps-2 partner search (who have resource, skills, assets)
Steps-3 feasibility study (technical/market/social/management)
Steps-4 incorporation (commitment &agreement/registered- private & public)

Advantages in J.V:

- financial resources can be shared
- Reduction of business risk
- Growth of Economics scales
- Control over functional activities
- Sharing technology &management skills

SOME RECENT JV 'S IN INDIA

- **SUCCESSFUL JV:** BAJAJ- + ALLIANZE ; MAHINDRA + RENAULT ; ICICI + LOMBARD
  - TATA +DOCOMO
- **FAILED JV :** YAMAHA + ESCORTS
- **JV LEADING TO TAKE OVER BY ONE PARTNER :** VIRGIN + TATA (take over by tata)

GLOBALISATION & HUMAN RESOURCE DEVELPOMENT:

"Investigate how domestic & international companies conduct HR practices around the world"

HRD (HUMAN RESORCE DEVELOPMENT:

HRD is the framework for helping employees develop their personal and organizational skills, knowledge, and abilities.

RECRUITMENT PROCESS IN HRD:

SL.NO	OLD CONCEPT IN HRD	NEW CONCEPT IN HRD
1.	• News paper ads • Telephonic interviews • Use of banner of vacancy • Preference to internal hiring	• Online recruitment • Use of social media • Use of IT software • Video conferencing • Use of chat rooms/e-mails/instant message in HR
2.	Minimum wages : irrespective Of his ability to pay	Basic salary (extra + added)
3.	Living wages: to provide not only bare essential of food,clothing etc.	HRA (house rental allowances)
4.	Above minimum wages + below living wages	Medical allowance, PF, E state insurance

GLOBALISATION WITH SOCIAL RESPONSIBILITY:

SOCIAL : RELATING TO SOCIETY

RESPONSIBILITY : duty to deal with something;

Globalization & social responsibility :

" That business should maximize their profits to their working in a socially responsible manner to promote the interest of the society"

CONCEPTS OF SOCIAL RESPONSIBILITY:

RESPONSIBILITY TOWARDS EMPLOYEES:

- ✓ To provide a healthy working environment
- ✓ To grant regular & fair wages
- ✓ To provide welfare services
- ✓ To provide training & promotion facilities
- ✓ Proper recognition of efficiency & hard work

RESPONSIBILITY TOWARDS SOCIETY

- ✓ Carry on business with moral & ethical standards
- ✓ Prevention of environment pollution
- ✓ Minimizing ecological imbalance
- ✓ Contribution towards the development of social health & education
- ✓ Making use of appropriate technology

RESPONSIBILITY TOWARDS CONSUMERS

- ✓ Supplying socially harmless products
- ✓ Adopts fair pricing
- ✓ Adopt after sales services
- ✓ Maintaining consumers grievances cell
- ✓ Supplying the quality & standards as promised

RESPONSIBILITY TOWARDS SHAREHOLDERS

- ✓ To ensure reasonable rate of return overtime
- ✓ To build reputation & good will of the company
- ✓ To remain transparent & accountable

RESPONSIBILITY TOWARDS GOVERNMENT

- ✓ Obey rules & regulation
- ✓ Regular payment & taxes
- ✓ Not to take advantages of loopholes in business laws
- ✓ Co-operating with the government for economic growth and development
- ✓ Co-operating with the government to promote social values

EXAMPLES OF CSR Activities in INFOSYS:

Learning and Education

- ✓ Donated 10,200 books online in Karnataka
- ✓ Reconstructed 14 government schools

Art & Health Care

- ✓ Organizes cultural programs

- ✓ Constructed Infosys super specialty hospital

Social Rehabilitation:

- ✓ Constructed hotels, orphanage, old age homes.

Donation camps:

- ✓ Eye & blood donation camps- pune
- ✓ Educare & facilities for rural people – Chennai.

NEGOTIATING AND INTERNATIONAL BUSINESS:

Negotiation is a process to manage relationship.

It is basic human activity. that exist between employers & employee, buyer& seller etc.

CHARACTERISTICS OF A NEGOTIATION SITUATION:

- There are two or more parties
- There is a conflict of need &desires between two or more parties.
- Parties expect a give & take process.

" The word business cultures, how to unlock them " - barry tomalin.

STRATEGIES FOR NEGOTIATION IN IB:

- Hire a consultant
- Choose your team wisely
- Gauge your counterparts
- Meet them in person
- Fix the agenda & keep detailed records.

TYPES OF NEGOTIATIONS:

1. **MULTIBLE NEGOTIATION:**
   Implemented overtime in different phases.
   Ex (architectural design contract (month/ 2years)
2. **MULTIPARTY NGOTIATION:**
   No.of. parties with different positions involved.
   Ex (international organizations. WTO)

10 MAIN FEATURES OF IB IN NEGOTIATION:

SL.NO	PARTICULAR	OPTION 1	OPTION 2
1.	Communication style	direct	In direct
2.	Work style	formal	Informal
3.	Discussion style	quick	Slow
4.	Attitude to business	progressive	Traditional

5.	Management style	horizontal	Vertical
6.	Business relation	Human relation	Work
7.	Decision making	Individual	Collective
8.	Basics for decision making	facts	Instincts
9.	Attitude to time	planned	Flexible
10.	Work life balance	Living to work	Working to live

ASSET PROTECTION:

Asset protection is planning for future liabilities

Strategies for Asset protection

- Choosing the right business entity
- Maintain your corporate veil
- Use proper contracts & procedures
- Purchase appropriate business insurance
- Obtain umbrella insurance (business + machine tools insurance)
- Place certain asset in your spouses / partner name.

Levels of asset protection:

- Level-1: Exemption (certain assets automatically protected by state)
- Level -2: Transmutation Agreement (death of non owner spouse)
  (Convert into separate property)
- Level-3: Professional entity formation (charging order Ltd Liability from partners)
- Level-4: A/C Receivable strategies (Equipment+ real estate)
- Level-5: Non-practice asset (Invest A/C, bank A/C, cash A/C
- Level-6: Domestic asset protection trust
- **Level-7:** Off shore asset protection trust