

Module 2

International Business Environment

2.1. INTERNATIONAL BUSINESS ENVIRONMENT

2.1.1. Meaning of International Environment

International business or global business can be defined as a set of all the commercial activities such as sales, logistics, investments, transportation, etc., performed by government and private firms across the national borders. Such commercial activities are generally undertaken with different motives by the private and government firms, where private firms focus on profit-making, and the government firms have both profit as well as political motive behind it.

International business environment is composed of various legal and political systems, economic policies, accounting standards, environmental standards, labour policies, language and cultural differences, export and import regulations, tariffs, foreign exchange policies, trade agreements, etc. All these elements may undergo significant variations from one country to another. Objectives of a business enterprise and methods to achieve them are the governing factors for its business operations in an international business environment.

The level of competition and the societal factors prevailing in international business environment affects as well as get affected by the firm's operations.

According to ICAFI centre for management research, "Global Business Environment is the environment in different sovereign countries, with factors exogenous to the home environment of the organisation, influencing decision making on resource use and capabilities. This includes the social, political, economic, regulatory, tax, cultural, legal, and technological environments".

2.1.2. Importance of International Business Environment

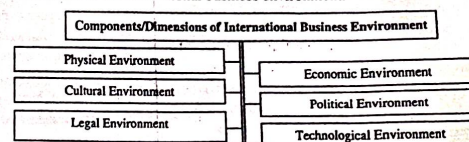
It is significant to have a good understanding of the international business environment because of the following reasons:

- 1) **Dependency of Industries on Import and Export:** There are various business enterprises whose main business operations are dependent on import and export activities. The study of global business environment is significant for such enterprises. For example, relaxations provided in the trade policies by a foreign country will boost the growth of industries dependent on export. However, any new trade restriction or slump economy of foreign country will lead to decline in the business of export-based industries.
- 2) **Spread Effects of the International Development:** Studying the global business environment helps in knowing the spread effects of various international developments such as hike in oil prices. When prices of oil increase, the cost of production and prices of other commodities and services also increase. For example, transportation cost directly gets affected and this further leads to increase in other related products. Such international developments severely influence several economies; therefore, having knowledge of such spread effects becomes important.
- 3) **Increasing Complexities of Business Environment:** In today's time where the economies are liberal, global, and privatised, the complexities and instability of global business environment has increased and it has become quite difficult to predict such environment. Such dynamic environment offers various new opportunities and challenges to the companies operating in it. Hence, in order to understand the reasons of such complex situations and to make the environment more stable, a complete study of global business environment becomes necessary. This will help in strengthening the weaknesses of business enterprises operating in the global business environment.

- 4) **To Anticipate and Withstand Changes of the Business World:** Studying and gaining understanding of the global business environment will help in anticipating and withstanding the changes occurring in the business environment. It will also enable the business enterprise to make strategic changes in its business policies and operations in accordance with the changes in business environment. Lack of knowledge of such environment will put the business in such condition where it will have to face the challenges due to the inability to make appropriate modifications at appropriate time. This may further lead to increased expenditure and inappropriate modifications. In the worst case, the firm may get paced out of the global competition.

2.1.3. Components/Dimensions of International Business Environment

The following are the dimensions of the international business environment:



- 1) **Physical Environment:** The constituents of physical environment are rivers, forests, lakes, climate conditions, natural resources, geographical location and territorial size of a country. The political and economic decisions, religion, language, culture, transport, business activities, determination of land usage, etc., are influenced by the physical environment. It is important for the managers to observe the growth and development in raw materials and natural resources in target nations in order to formulate and sustain a feasible global business plan. Country's natural environment is important for the prosperity of its people. These natural resources are used for the benefits of people or enterprise irrespective of their state of depletion.
- 2) **Economic Environment:** International economic environment refers to those economic factors which largely influence the functioning of a global business organisation in any country. These factors consist of production processes and wealth distribution system prevalent in countries. The economic environment also affects the business activities of the organisation. In addition to this, the market size and consumers' willingness to spend also plays a vital role in determining the economic environment of a particular nation. Thus, some of the other economic factors are interest rates, inflation, disposable income, savings of the society, etc. All these factors prevalent in the environment influence the purchasing power of the consumers in that particular country. Moreover, economic development leads to changes in the tastes and preferences of the customers.
- 3) **Cultural Environment:** One of the vital elements of global business environment is cultural environment. Cultural environment is a complex business environment that is not so easy to understand as it is principally hidden. According to Kluckhohn and Strodtbeck, cultural environment is the general body of common values and beliefs that helps in ascertaining what is right or wrong for a social group. When such values and beliefs are shared by the public of a country, it becomes the national culture. Usually, these values and beliefs seem to emerge from factors like language, history, geographical situation, historical background, education and administration. Therefore, an organisation cannot initiate its cultural analysis without analysing such factors.
- 4) **Political Environment:** Governmental activities and actions that influence the daily business operations of a company or business constitute the political environment. The political environment in which a organisation works (or is planning to work) has a substantial influence on its global business actions. There is a greater need to regulate political environments of the nations in which business is being carried-out. In other words, a global company needs to assess the political environment of the host country before conducting its business activities. Alteration in government generally brings about alterations in its policies and outlook of conducting international business.

- 5) **Legal Environment:** The policies, laws and regulations formulated by the government for conducting the business operations constitute the legal environment of the country. It is the government who formulates the legal system of a country. It is responsible for defining the priorities based on which the business activities are monitored and controlled. Alongwith the policies and procedures, the government also decides the constraints of business operations, which is an integral part of the legal environment.

The legal system of a country refers to the ways through which its business practices are regulated, business transactions are prescribed, duties and rights of those involved in business transactions are defined and the methodology for legal redress is pronounced. Usually, it is the varying legal system of a country that affects the decision regarding whether or not to invest.

- 6) **Technological Environment:** Just as other factors (*viz.* legal, economic, political, etc.), the technological environment also greatly affects global business. The influence of technological development is clearly evident in the various facets of business procedure. The development of electronic means of communication has brought about drastic development in the way market data is acquired and also in administration and feasibility so as to conduct business across the globe.

2.1.4. Political Environment

Governmental activities and actions that influence the daily business operations of a company or business constitute the political environment. The political environment in which an organisation works (or is planning to work) has a substantial influence on its global marketing actions. There is a greater need to regulate political environments of the nations in which business is being carried-out. In other words, a global company needs to assess the political environment of the host country before conducting its business activities. Alteration in government generally brings about alterations in rules, policies and outlook of conducting international business.

A political system refers to sum total of all organisations and political institutions, how they are associated and the political system and regulations that direct their business operations. The marketing environment of a country is directly influenced by its political environment. Enhanced business environments might emerge from some political environment and *vice versa*. For example, business operations of Bangladesh are greatly affected by its unsteady political environment. However, almost two decades ago, Bangladesh was at the same level with countries like Malaysia and Vietnam in terms of economics and industry. At present, Vietnam and Malaysia have accomplished tremendous success with the help of their appropriate political judgments, capable and liable leadership and stable political situation.

The political environment of a nation also creates a great impact on its companies and managers. For example, China's political system has permitted foreign investors to enter in its market, plan actions, design processes and finally acquire significant gains.

2.1.4.1. Political System

A political system can be defined as a system of government and politics. There is a comparison between the political system, economic system, law system and various other types of social system. There is a difference between these systems and political system and it can be explained with the help of a spectrum from the left which is communism and socialism to the right, i.e., fascism and anarchism. In fact, none can be said to be pure and thus a majority of these are in the middle where capitalism is said to be present.

There is a greater impact of the government system of a country on its business. The business of a certain country is being decided, protected, developed, encouraged, protected, directed and controlled by the nature and formation of the prevailing government in that nation. The major factor for the economic development of any country can be seen as its political system (which is a different name of the type of government) which should be stable, honest, effective and active and ensuring the participation of the citizens in the politics and at the same time, ensuring the security of the citizens. The success of the developed economies is largely dependent on the political system which is enjoyed by them. The government system in any country can be regarded as its political system.

The political system of any country forms the economic and legal system in that country. There are mainly two major foundations on which the political system or government can be classified:

- 1) **Political System as the Basis:** One of the manners for classifying the government is to treat them as:
 - i) **Parliamentary Governments:** Parliamentary governments seek suggestions from the citizens occasionally in order to gain understanding of their views and preferences. Thus, the government policies are formed in such a manner that it represents the majority of the society. Majority of industrialized countries and democratic countries are considered to be the parliamentary.
 - ii) **Absolutist System:** On the other side are the absolutist governments which are constituted by monarchies and dictatorships. In these kinds of systems, the government policies are controlled by the ruling regime without giving any consideration to the need and views of the common citizens. Most commonly, these kinds of system include the newly formed nations or the countries having some sort of transition phase.

Number of political parties can also be used as a toll to classify the governments. There are mainly four types of government in this category:

- i) **Two-Party System:** In this kind of set-up, there are mainly two major political parties which take the control of the government. However, other parties can also function. The typical examples of these are United States and United Kingdom. There will be various philosophies in the two parties which will cause the change in the policies of the government when one party replaces the other.
- ii) **Multiparty System:** In case of a multiparty set-up, a number of political parties are present and no party is strong enough to gain control of the government. There can be some strong and large parties but the elected representatives may not be able to gain the majority.

With the help of coalitions between the different parties, the formation of government takes place and each party looks to protect its own interest. The corporation among the party partners decides the longevity of the coalition government. Normally, a continuous challenge is poised by the opposing parties to the coalition.

- iii) **Single-Party:** In case of a single party system, there can be a number of parties but the dominance of a particular party is so prominent that there is hardly any chance for the other parties to elect the representatives for ruling the country. For example, for more than thirty years, the single party system was used in Egypt. This kind of set-up is used by the countries which are in their early phase of the development of a true parliamentary set-up.
- iv) **Dominated One-Party:** When it comes to dominated one party set-up, no opposition is permitted by the dominant party and thus there is no option presented to the citizens. On the other side, there will be some kind of opposition party in case of a single party system. The typical examples of this kind of set-up are former Soviet Union, Cuba, and Libya. These kinds of systems can give birth to the dictatorship.

- 2) **Economic System as the Basis:** There are mainly following three types of systems:
 - i) **Communist Theory:** As per the communist theory, all the resources should be controlled and shared by the citizens (i.e., rather than by profit-oriented organisations) for the betterment of the society. Practically, it is the government which regulates the different productive resources and industries and as a result, jobs, price, production, education and other similar aspects are determined by the government. The main focus remains on the human welfare. As the main objective of the government is not to earn profit, there is hardly any kind of impetus for the managers and workers to have greater efficiency.
 - ii) **Socialism Theory:** In comparison to the communism, the level of control in the socialism is relatively easier. All the basic and major industries are regulated by the socialist government and the ownership of the small business is left for the private owners. Socialism is the level of extent and different socialist countries are different. For example, the socialist country such as Poland is more attracted towards communism which is quite visible from its strict control over process and distribution.
 - iii) **Capitalism Theory:** The other side of the communism can be seen in the form of capitalism. The main concept of capitalism depends on the free market system which enables the competition among business and freedom of selection for both the companies and the common individual.

This is mainly a market governed system in which the individuals who are motivated by the private profits have the freedom of producing the products or services for the consumption of common public under the competitive situation. Demand and supply decides the market price. The requirements of the society are fulfilled by promoting decentralised decision-making, innovation and risk-taking ability.

2.1.4.2. Influence of Political Environment on International Business

Following are the implications of political environment on International Business:

- 1) **Political Ideology of the Government:** Government's political ideology discusses the thoughts, vision and approach towards social and economic activities of the country. It determines the type of business operations the country should have, operations to be included in the private and public sectors respectively, areas to be opened for foreign investment, areas to be marked for small scale operations, etc. Therefore, political ideology of a country greatly influences the global marketers.
- 2) **Political Stability in the Country:** The most important factor for economic growth of a country is a steady political system, which comprises honest, dynamic and efficient members, who make sure that the citizens are safe within the country. The reason behind the success of major developed countries and their economic stability is the political system of those countries. In the absence of an effective political system, it is difficult to define the long-term goals of the global organisation. With the changing government, the economic policies also change frequently, leading to the uncertainty of business class. The various factors related to the instability of political system are communal riots, declaration of emergency, civil war, etc.
- 3) **Government Relations with Other Countries:** Government relations of a country with other nations significantly influence its marketing operations. International trade becomes favourable when friendly and cordial relationships are developed with other countries. Furthermore, such relations also help in decreasing the defence budget thereby increasing investments in infrastructures and fostering the growth of marketing activities.
- 4) **Defence and Military Policy:** Allocation of huge funds for armed forces can be harmful for marketing and economic system as the government will also impose heavy taxes, remove inducements and might also cut down the expenditure on the financial infrastructure. Friendly relationships between the central and state government also prove to be conducive for the marketing activities.
- 5) **Thinking of Opposition Parties towards Business:** At times political parties form union government with different economic ideas, which adds complication to the political atmosphere of the country. Such scenarios also create complexity in conducting business operations.
- 6) **Policies towards International Marketing:** Political environment greatly influences each and every marketing process irrespective of its dimensions and reach. MNCs deal with several complicated political environments as they manage their business operations in more than one country. Facing such complex situations compels them to anticipate three different types of political environment, i.e., foreign, domestic and international.
- 7) **Government Control and Restrictions:** Government control and restrictions can be favourable or unfavourable for different businesses. They can either support the business activities of a firm or can prohibit and discourage its business operations. However, this varies from government to government. International law gives liberty to the countries to either permit or withhold the permission of conducting marketing operations within its political regions.

2.1.5. Legal Environment

The policies, laws and regulations formulated by the government for conducting the business operations constitute the legal environment of the country. It is the government who formulates the legal system of a country. It is responsible for defining the priorities based on which the business activities are monitored and controlled. Alongwith the policies and procedures, the government also decides the constraints of business operations, which is an integral part of the legal environment.

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The global legal environment regulates the working of organisations in the global market. The organisations that operate in their native places have to simply follow the rules of their countries, but those dealing with foreign nations have to follow both domestic as well as international laws.

Global marketing is affected by following three bodies of law:

- 1) **International Laws:** These are body of rules and regulations that countries agree to abide by. International law addresses agreements among countries with regard to trade, protection of property and other issues in the political and economic sphere. International law agreements, although not enforceable, can be appropriately addressed by international law bodies.
- 2) **Host-Country Laws:** These are laws of the different countries where the company operates. The legal system in the host country could differ substantially from that of the company's home country.
- 3) **Home-Country Laws:** These are laws of the company's home country. Home-country laws follow the company all over the world.

2.1.5.1. Legal Factors Affecting International Business

International business is influenced by several legal factors. Some of them are described below:

- 1) **Bribery:** Bribery refers to a type of corruption where favours in cash or kind are inferred to influence the decision or conduct of the receiver. It is a punitive crime. According to Black's Law Dictionary, crime refers to "the offering, giving, receiving, or soliciting of any item of value to influence the actions of an official or other person in discharge of a public or legal duty".

Bribery can be in any form, such as cash, product, property, privilege, promotion, benefits or advantages or can be just a promise to affect the action or vote of an individual.

- 2) **Decision regarding Branch or Subsidiary:** While entering in global market, a major decision in front of an organisation is whether to operate as a subsidiary or a branch.

i) **Branch:** A branch refers to a wing of the main office. It neither has much corporate formalities nor its own board of directors or stocks.

ii) **Subsidiary:** Subsidiaries are form of foreign direct investment. A subsidiary is an independent company in the eyes of law, although the main office may hold all the voting stocks.

- 3) **Counterfeiting:** Counterfeiting is an act of imitation. A counterfeited product is the one which is duplicate of the original product. It is an attempt to trespass the monopoly of a product enjoyed by a company or state. The objective behind counterfeiting is to surpass the monopoly and to steal the benefits enjoyed by the original products.

The term 'counterfeiting' is generally associated with forgery of documents and currencies. It involves imitating of products like medicines, garments, brand name, electronic gadget, watches etc.

- 4) **Strategic Concerns:** Various legal issues influence the manner in which the company creates its value. It includes everything from manufacturing to marketing the product. The strategic concerns of a global company are influenced by the following legal issues:

i) **Safety and Liability:** For operating in a specific country, organisations need to adhere to local legal norms. At times, such legal issues can be more severe than that in the native country and sometimes these can be different altogether.

ii) **Marketing Behaviour:** The various aspects of marketing such as pricing, distribution and promotion are greatly influenced by the national rules, regulations and laws. For example, many countries prohibit the advertising of cigarettes on television.

iii) **Product Origin:** The laws of the country also decide the distribution of the products around the world. It helps in determining who will be originally responsible for taking the product to the international market. It also helps in determining the share of profit enjoyed by the owners and local dealers.

iv) **Legal Jurisdiction:** In case of legal proceedings, every country specifies the laws and the arbitrator who can be local people or the owners of the company. However, the main decision lies with the court. Generally, companies try to prefer the laws of their native country for receiving favourable judgement.

- v) **Arbitration:** Generally, conflicts of the companies are resolved through arbitration. The International Centre for Settlement of Investment Disputes, which is closely associated with the World Bank, hears a few complaints which are filed against governments. In case any government does not comply with its legal debts, it may not receive any financial help from the World Bank.
- 5) **Gray/Grey Market:** It refers to a situation where a company purchases products from one market and sells it in another market to enjoy price differential. Grey market products refer to original products which are sold through unauthorised dealers. Although the products are similar to original product in every manner including the trademark, the only difference is of prices.

2.1.5.2. Influence of Legal Environment on International Business

The influence of legal environment is as follows:

- 1) **Deregulation:** On deregulation of industries, there is less restriction to enter a country. Hence, more organisations enter a country for conducting business, leading to tougher competition. For example, deregulation of principal markets creates a mad rush in primary capital markets through right issues and primary public offerings.
- 2) **Globalisation:** Globalisation has demanded organisations to be competent enough to beat the firms at both national and international levels. Significant alterations have been observed in the rules related to industrial competitions, as the organisations have to adopt a multi-dimensional approach for attaining a competitive edge and maintaining leading positions in the market.
- 3) **Concern for Natural Environment:** The last few decades have witnessed the formulation of various important rules and regulations for conserving and safeguarding the natural environment. Many laws and acts are approved by different countries' governments for conserving the nature and for identifying ways in which the global organisations can perform their business operations without harming nature. For example, in context of India, the laws related to emission of toxic fumes from automobiles and pesticides residual in edible items have clearly reflected the concern towards natural environment.
- 4) **Intellectual Property:** There are variations in the laws related to intellectual property from country to country. These laws are strictly defined in written form but practically are not much severe. Even those nations which have agreed for protection of intellectual property through agreements depict the same trend.
- 5) **Product Liability and Safety:** Product security laws are put forward by many nations that oblige the firms to manufacture hazard-free products. The product liability means that the producers and sellers are responsible for any sort of harm, wrong or loss caused by faulty products. The affected person/parties on whom disaster is inflicted can file criminal or civil legal suits against the defaulter, demanding fine or imprisonment.
- 6) **Competition among Businesses:** Monopoly and customer's interests are safeguarded through competition laws. It is a well-settled fact that the consumer interests are safeguarded when healthy competition between the producers and sellers of the products is encouraged. For example, India has a competition law, just like antitrust law in several other nations. All countries ranging from South Korea, Brazil to the Czech Republic have passed competition laws.
- 7) **Bribes and Corrupt Practices:** An intentional act of convincing someone (generally who has authority and power) for acting inappropriately in favour of those offering bribe (in forms of gifts or money), is known as bribery. It is considered as the basic cause of corruption. Corruption can be defined as misuse of official positions for personal purposes. Bribery is illegal and prohibited in the most of the countries.
- 8) **Advertising and Sales Promotions:** An enormous amount is being spent all over the world for the purpose of marketing and advertisements. Just like marketing in the native place, false claims and untrue tales are made to increase the sales in the global market. In order to check upon such fake statements, appropriate laws have been made by most of the countries. With the increase in the extent of marketing, these laws and orders are formulated by almost every nation across the world.
- 9) **Contracts:** A contract refers to an agreement signed by the parties who are interested in formulating rules for governing the business transactions. A significant role is played by the contract law in global business transactions as complications might arise due to varying legal systems of participating nations.

2.1.6. Economic Environment

Economic environment refers to those economic factors which largely influence the functioning of a global business organisation in any country. These factors consist of production processes and wealth distribution system prevalent in countries. The economic environment also affects the marketing activities of the organisation. In addition to this, the market size and consumers' willingness to spend also plays a vital role in determining the economic environment of a particular nation.

Thus, some of the other economic factors are interest rates, inflation, disposable income, savings of the society, etc. All these factors prevalent in the environment influence the purchasing power of the consumers in that particular country. Moreover, economic development leads to changes in the tastes and preferences of the customers.

Understanding the economic environment of other nations and their markets, will prove beneficial for the management, to anticipate the impact of latest trends and happenings on the future performance of the organisation. The fact that a country will prove good as a host for global business projects depends upon its size, rate of economic growth and its per capita income. Countries having lower per capita income are not profitable for heavy machineries market but are better for agricultural equipment. Such countries cannot bear the price of technical machines. Countries with good growth rate are prospective markets for latest industry items and consumer goods/services.

However, few industrially backward nations are developing at a faster pace. For example, the USA will face competition from China and India in the near future. Even though the per capita income of the USA is seven times and twelve times than China and India respectively, these two countries are rich in human resource as their population is very high.

Infrastructure and marketing practices like public services, banking, utilities, communication and transportation facilities are also considered while making plans to enter an international market. Inadequacy on account of infrastructure can hinder the plan related to manufacturing, promoting and distributing products and services in certain countries.

2.1.6.1. Determinants of Economic Development

The economic development of a country is mainly affected by two main factors which are as below:

- 1) **Economic Factors in Economic Development:** The various factors which can be analysed for determining their role in economic development are as below:
 - i) **Capital Formation:** Conventionally, the strategic role of capital has been identified in economics to increase the production level. In the entire world, it has been identified that a country which is looking to increase the economic development has the only option of saving high ratio of its income so that it can increase the investment level. Over-dependence on the foreign aids is not safe and thus it is advisable to avoid them.
 - ii) **Natural Resources:** Natural resources are the main factor which affects the development of any country. This consists of the quality of the soil, forest wealth, good river system, minerals and oil-resources, good and bracing climate, land area and so on. In order to have economic development, it is quite important to have the natural resources in greater quantities. The country which has limited natural resource can struggle in order to acquire higher development.
 - iii) **Marketable Surplus of Agriculture:** From the viewpoint of national development, it is important to have the increase in the agricultural yield alongwith the increased productivity. But the most important thing is to have an increased marketable surplus of agriculture.

The term 'marketable surplus' can be defined as the additional output in the agricultural sector more than the required quantity by the rural population to survive. The main significance of the marketable surplus in the developing economy is mainly related to the fact that the survival of the urban industrial population depends on it.
 - iv) **Conditions in Foreign Trade:** Economists used the classical theory of trade quite commonly for a fairly long time in order to discuss that there are some advantages to the countries by trading among each other.

From the current perspective, this theory advises that lesser countries to focus on having the specialisation on the production of primary goods due to comparative cost advantage in the production of these goods. The countries which are able to develop the industries in a shorter time period can be benefited from the foreign trade. For their industrial products, these countries will be able to find out the international market somehow.

- v) **Economic System:** The economic development prospecting is also greatly affected by the economic system and the historical setting of the nation. In some recent past, a country could have the fair economy and yet having the economic development. But at present, the situation is completely changed; it will be very difficult for a country to have economic development by following the path of England's development.
- 2) **Non-Economic Factors in Economic Development:** It is quite evident from the historical evidences that for the development both the economic and non-economic factors are important. Now we will try to explain how these factors affect the economic development process:
 - i) **Human Resources:** One of the most important factors for the economic development is the human resource. For the production, the labour power is facilitated by the man, if the labour of a country is efficient and skilled labour, it will have a higher contribution towards the development of the country. There will be a low productivity for the illiterate, unskilled, disease ridden and superstitious people and thus the chances of economic development are quite rare in any country.
 - ii) **Technical Know-How and General Education:** There was a lot of doubt about the direct influence of technical know-how on the developmental growth. With the advent of scientific and technological knowledge, more sophisticated technologies were discovered by the human being which ultimately resulted in the continuous increase in the productivity levels. The current level of the technology is quite sophisticated, yet there is a requirement to give a lot of significance to the Research and Development activities in order to boost the development.
 - iii) **Political Freedom:** If we observe the present modern history, it will be found that the activities of development and under development are interconnected and treating them in isolation is not the correct approach. It is a common fact that the development of England was interconnected with the underdevelopment of many countries such as India, Pakistan, Bangladesh, Sri Lanka, Malaysia, Kenya, etc., which were the British colonies. These countries were exploited by England uncontrollably and utilised the major part of these countries' economic surplus.
 - iv) **Social Organisation:** In order to have the fast growth process, it is important to have the mass participation in the development programmes. When the individuals feel that the outcomes of the development will be distributed fairly then only the common persons take part in the development activities. With the help of the insight gained from the experiences of various nations, it is found that when the major benefits of the growth are being utilised by the elite groups of the society due to defective social organisation, then common public will not show any interest towards the development programmes of the State. In these cases, it is not useful to consider that the active participation of common people in the development projects which are run by the State.
 - v) **Corruption:** The developing nations experience the uncontrolled corruption in different levels and it proves to be the negative factor for the development process. Unless the phenomenon of corruption is eradicated from the administrative set-up, it will be quite common to observe the exploitation of natural resources by the capitalists, traders and other powerful economic classes for their own benefits. Even the misuse of regulatory system is also seen and merit does not become the prime factor to issue the license.
 - vi) **Desire to Develop:** Development process is not mechanical in nature. The desire of the common citizen of a country to have the development decides the economic growth pace in any country. If a country has a low level of consciousness and poverty is accepted as the fate by the common public, then the chances of development are quite bleak.

2.1.6.2. Economic Conditions

Business is greatly affected by the general economic conditions. Economies face the period of both booms and recession. Boom can be seen as a period of high output level with higher employment and increased prices and demand. Recession is just adverse to these features.

If a certain region relies heavily on a certain sector or industry, then the fortunes of this industry will have a deciding impact on the business in that region. Crude oil price has a significant impact on the economic and business fortunes in main oil exporting nations. There can be a close relation between the economic situation of a region and the prices of major crops of that region.

A certain economic situation can be spread both nationally and internationally or it can be restricted to a certain region. Some of the specific economic policies and business environment can be affected by the current account and balance of payments positions of a country. For example, due to a prevailing current account surplus, the government can be motivated to relax the imports and capital flow. A number of international and national factors decide the exports and imports of a certain country.

For example, it was found from the analysis of the empirical data that there are some vital factors which has the deciding influence over India's export performance. This mainly consists of external factors and internal factors along with the real exchange rates. Various external factors are stated below:

- 1) Economic development rate of the importing countries.
- 2) Growth rate of world trade
- 3) Importing country's rate of price level change.

The internal factors are illustrated as below:

- 1) Indian economy's development growth.
- 2) Domestic price level change rate.

2.1.6.3. Economic Policies

- 1) **Fiscal Policy:** The fiscal policy aims at increasing the revenue receipts of the government and bringing the expenditure under control while ensuring that the various developmental and societal objectives of the government are not impacted adversely. With the help of introducing compensatory variations in the public expenditure and taxes, the private investments as well as the consumption level are changed. Changes in fiscal policy cause the changes in monetary policy. The fiscal policy of a country is concerned for:
 - i) Maintaining the balance of payment equilibrium,
 - ii) Stabilising the price level,
 - iii) Achieving and maintaining the full employment,
 - iv) Improving the growth rate of the concerned economy, and
 - v) Facilitating the economic development of the country.
- 2) **Monetary Policy:** The monetary policy of any country is responsible for regulating the money supply in the market with the help of controlling the interest rates. In order to attain the significant economic growth as well as the price stability, the monetary authority of the concerned country devises the monetary policy. In India, the RBI, i.e., Reserve Bank of India, devises the monetary policy. The monetary policy of a country is concerned for:
 - i) Controlling and regulating the banking system of the country,
 - ii) Maintaining the rate of money supply in the market,
 - iii) Providing credit for the priority sector,
 - iv) Achieving price stability, and
 - v) Achieving and maintaining economic growth.
- 3) **Foreign Trade Policy:** Exchanging goods, services as well as capital across international borders is called foreign trade. The Central Government of the country devises its foreign trade policy. This policy is focussed towards improving foreign trade as well as balance of payments, developing export capacity and facilitating export performance. It includes different import and export related instructions and guidelines suggested by the Ministry of Commerce (Directorate General of Foreign Trade).
- 4) **Industrial Sector Policy:** India's industrial policy can be seen as one of the fields which have witnessed a lot of change due to the economic liberalisation of the 1990s. Due to this early policy changes, a trend was forming ever since the pro-business approach was adopted by the government towards the industrial policy during the 1980s.

In the following years, there was a transition from the centrally planned and functioning economy to the market controlled economy in India which represented the global trend of minimal controlled economies. Majority of government controlled organisations were privatised yet some political disputes are still prevailing over the eradication of reservation.

- 5) **Privatisation Policy:** Not only the coal mines but various other vital sectors are operated by the Government of India. Approximately half of the capital stock of India is made up by the public enterprises and they have the major market shares in the industries such as mining, smelting, banking and railways. However, these industries suffer from lower productivity and capital. Due to political reasons, a number of public enterprises were established and sustained.

For example, there were thousands of workers on the payroll of a fertilizer factory in Haldia, West Bengal for many years despite having no initiation of production.

- 6) **Foreign Exchange Policy:** Policies related to exchange rates and cross border movement of capital are quite vital for the business.

For example, the cross-border movement of capital was boosted by the removal or liberalisation of exchange control in the entire world beginning from the later part of the 1970s.

- 7) **Foreign Investment and Technology Policy:** Till the late 1980s, when the liberalisation was initiating globally, there were a lot of restriction on the foreign capital and technology in majority of developing and socialist/communist countries. Not only the foreign companies by the domestic enterprises were hampered by the control on foreign capital and technology as it restricted the acquisition of new technology which these organisations want from the best source. The developmental plans of the organisations alongwith the joint ventures can be affected by the restrictions on the foreign capital.

2.1.6.4. Influence of Economic Environment on International Business

Economic environment around a global organisation affects its functioning in following manner:

- 1) **Changing Income:** The purchasing power of the consumers directly affects the economic environment, as the purchasing ability depends on the income capacity of the consumers. The factors affecting the economic state of customers in a particular country, involve economic uncertainty, heavy taxation, high rate of unemployment, inflation condition, etc. Few big companies in the market provide hefty pay packages to the deserving candidates. These people increase the rate of cash flow in the market with their high income level. Hence, global marketers should analyse the income capacity of the target market/country before launching their products and services in it.
- 2) **Changing Consumer Spending Patterns:** The consumer spending pattern is a significant factor for marketing of products and services of an organisation. Most of the household expenses are incurred on food, transportation and housing. With increase in family income, expenditure on food decreases, the amount spend on housing remains the same and the expense incurred on the other categories are considered as savings. In a particular country, with the increased income, the consumption pattern of different commodities change and it may cause variation in demand. Therefore, it is very essential for global marketers to predict the consumer spending patterns of the target market customers.
- 3) **Changing Economic Conditions:** Economy of a particular country is susceptible to change due to interdependence of different countries of the world. A minute change in one country may affect the economic condition of the other one. Analysing the economic conditions of the target country is therefore very essential for the global marketers. With the help of observing the GDP, export and import level, trade and employment conditions, forex reserves, etc., of the target market, one can forecast the economic conditions of a particular country.

2.1.7. Technological Environment

Just as other factors (viz. legal, economic, political, etc.), the technological environment also greatly affects global marketing.

According to J K Galbraith, "Technology is a systematic application of scientific or other organised knowledge to practical tasks".

Technology is one of the most significant factors for marketing the products in global market. The influence of technological development is clearly evident in the various facets of marketing procedure.

The development of electronic means of communication has brought about drastic development in the way market data is acquired and also in administration and feasibility so as to conduct business across the globe.

Technology refers to the methodology or procedure through which data related to completing a particular work is processed. Hence, the terminologies 'methodology' and 'procedure' do not imply simply 'knowledge' but rather mean 'ability' for completing a job. Hence, technological innovation implies expansion of knowledge, along with expansion of skills, or finding out novel or enhanced ways that help in expansion of abilities for accomplishment of a particular job.

2.1.7.1. Features of Technological Environment

The main features of technological environment are as follows:

- 1) **Constituent of Macro Environment:** Similar to other environments such as political, economic and social, etc., technology is also a constituent of indirect action or macro environment.
- 2) **Far Reaching Effects:** A person, firm, industry or nation cannot avoid changes in technology as it has far reaching effects.
- 3) **Different from Science:** In spite of the fact that technology and science are interdependent, both of them are distinct from one another. Science implies a uniform and standardised body of knowledge, while the application of that knowledge is termed as technology. Thus, new technologies are constantly being evolved due to continuous development in science.
- 4) **Change:** The most significant characteristic of technology is change. Change is forced by technology on people, whether they are ready to accept it or not. These changes create a future shock due to several changes occurring in the modern technological environment. A future shock refers to a change which approaches human beings in a furious manner and proceeds towards the limits of human tolerance or patience levels. Eventually, people are unable to face or deal with the change.
- 5) **Prevalent:** The effects of technological environment are pre-dominant, wide-ranging and beyond the adjacent point of technological impact. Technology spreads throughout the society till every community is influenced by it. As the shock waves of these changes barges into even the most distanced places, no individual can avoid it.
- 6) **Self-Reinforcing:** Another salient feature of technology is self-reinforcing. The concept of self-reinforcing indicates that technology undertakes the role of a multiplier to promote its own rapid development. It acts in-between different parts of society in a way that any invention occurring at one location creates a sequence of inventions in other locations. For example, invention of wheel has led to the fast development of a lot of other applications. Such applications consecutively influenced other parts of the system and directed many more inventions that correspondingly affected society as a whole.

2.1.7.2. Influence of Technological Environment on International Business

The influence of technology can be studied under three categories:

- 1) **Influence of Technology on Society:** It is the society that has probably experienced the most prominent effect of technology. The technological advancements have possibly affected each and every aspect of social life and that of the people in some or the other way. The effects of the technology on society are as follows:
 - i) **Rising Customers Expectations:** The societies have become prosperous due to technology. The rich people want to acquire a variety of many things instead of a variety of same things. Hence, in order to meet the needs of rich class, novel kinds of products which are safe, easy to use and free from any sort of contamination, are manufactured and distributed. For this purpose, a considerable amount has to be spent on R&D.
 - ii) **Complicated System:** Machines have now become more complicated due to latest complex technologies. Undoubtedly, machines have improved in terms of efficiency and speed for production; but what if they fail? The failure of machines is basically due to their complex model; moreover,

experts are needed to repair them. A system or machine is made up of several parts and there should be harmony between these parts to complete a particular work. Hence, it becomes quite essential that each and every part should be dependable.

ii) **Social Change:** The impact of technology on social change is discussed below:

- Technological change leads to social change.** Hence, due to a technological innovation the financial foundation of the town may shatter away, a lot of labourers might have to be relocated; on the other hand, it might lead to the formation of a new town and development of more job opportunities than what previously existed.
- Besides evacuating inhabitants, technology can also bring about drastic change in the way of the life of the people. For example, family which is the basic unit of society might observe radical changes due to technological development. It might happen that due to technological innovation, novel job avenues are opened for female population, thus bringing about tremendous change in the time spent at home and on job thus raising spare time. On one hand, technological innovations have created more prospects for young generation; while on the other hand, it has led to rejection of middle-aged and old labourers.
- Due to technological advancement, the developing countries have observed a new kind of stratification which is not based on caste but on class. MNCs play a leading role in embarking technological development in marginally developed nations. MNCs have been able to establish a unique name and fame, which is quite distinct from the native firms, due to availability of tremendous funds.
- Technology has brought about tremendous changes in all spheres of our lives, ranging from cooking, communicating to our ways of working and using mass communication. Our language has also been changed considerably, as several new words are added to our vocabulary, like robotics, superconductivity, e-commerce, e-transfer, lasers, miracle drugs, computer engineering, online education, netizens, etc.

2) **Economic Effects of Technology:** Technological developments have remarkably influenced economy in the following ways:

- Increase in Productivity:** The very basic influence of technology in spheres of economics can be rise in productivity levels – quantitative as well as qualitative. That is why technology is implemented in each and every sphere of life. For example, in hospitals irrespective of the profit, the primary aim is to save life through electronic monitoring system. However, in factories, the primary aim might be to produce more at lower cost.
- Necessity of Spending on R&D:** With the technological development, the importance of R&D increased. From this perspective, organisations have to consider the following six subjects, for taking decisions and acting out:
 - The allotment of resources to R&D department.
 - Transfer of technology; the course of action of technology from lab to real life is not less important.
 - Time plays a crucial role in R&D.
 - With the development of novel technology, the previous one has to be discarded.
 - The organisation has to take decision regarding its own R&D or for outsourcing it.
 - Finally, very crucial decision regarding product or process innovation has to be taken.
- Jobs Tend to become more Intellectual and Knowledge-oriented:** Technological advancement is likely to demand for intelligence and improvement in skills. The work which could previously be assigned to uneducated and untrained persons presently demands for knowledgeable and skilled people. Nowadays, the clerical post in an organisation calls for people with excellent computer skills.
- Issues Related with Techno Structure:** It is not only the jobs which have become intelligent and knowledge based, but even the officers have become extremely professional and educated. A firm with latest technology system clearly means that it has a growing team of engineers, scientists, managers, graduates and highly educated people.

Although, this type of firm might feel proud of its updated and highly sophisticated perspective of its teammates, yet, such a firm might have to face very grave problems, some of which are as follows:

- It is not an easy job to inspire and motivate these workers. Ordinary inducements, such as a fat package, job security and fair dealing, fail to inspire people with high calibre. Rather, they are inspired by challenging projects or by assignments which provide them with opportunities to grow and excel.
- It would not be an easy job to retain such employees for a long period.
- Undoubtedly, expert team forms the techno structure. As the team members of a techno structure are more action-oriented, they are also required to study the social issues that might emerge due to decision-making.
- Increased Regulation and Stiff Opposition:** The technological development results in rising number of guidelines on trade by the domestic government and also resistance of the technology by the general public. The local government can examine and outlaw the products that might prove to be harmful or might harm the emotions and sentiments of the society. For example, import of animal tallow is prohibited by Indian Government as it is supposed to blend with vanaspathi oil and this fact upsets the sentiments of Hindu community.
- Rise and Fall of Products and Firms:** Technology change is a rule which is not free from exceptions. The change in technology often brings about several issues to trade. Though, the new technology might contain the seeds for growth of a primary industry, yet, it might lead to the destruction of the present one. For example, audio cassette industry was shattered due to invention of CDs and DVDs, and carbon paper trade was badly impaired due to invention of xerography.

3) **Technology and Root Level Alterations:** There are significant effects of the technology at the root level:

- Technology and Organisational Structure:** The organisational structure is largely influenced by technology. Technological changes can influence the extent of line of authority, and span of control of the chief executive. Matrix structure is usually found in the firms using readily changing technology. The matrix structure is used even by those firms which do not have fast-paced technology.
- Fear of Risk:** The apprehension regarding technology failure is always present. The research-based firms, such as DuPont, which lead to opening of new avenues in textile trade by introducing synthetic fibre as early as 1939, also had to undertake risks and face few consequent breakdowns to succeed in its goal.
- Resistance to Change:** It is quite natural that the manager of a firm often faces resistance to change. Usually the personnel oppose new technology as it brings about new issues. Though, the opposition to change is generally psychological in nature.

2.1.8. Socio and Cultural Environment

The social and cultural influences on international marketing are immense. Differences in social conditions, religion and material culture all affect consumers' perceptions and patterns of buying behaviour. It is this area that determines the extent to which consumers across the globe are either similar or different and so determines the potential for global branding and standardisation. This category encompasses a wide range of considerations, many of which can – if misunderstood or unanticipated – significantly undermine a business's marketing efforts. These include:

- | | | |
|-------------------------|------------------------------|-----------------------|
| 1) Literacy rates, | 2) General education levels, | 3) Language, |
| 4) Religion, | 5) Ethics, | 6) Social values, and |
| 7) Social organisation. | | |

A failure to understand the social/cultural dimensions of a market are complex to manage, as McDonald's found in India. It has to deal with a market that is 40 per cent vegetarian, had an aversion to either beef or pork among meat-eaters and hostility to frozen meat and fish, but with the general Indian fondness for spice with everything. To satisfy such tastes, McDonald's discovered it needed to do more than provide the right burgers. Customers buying vegetarian burgers wanted to be sure that these were cooked in a separate area in the kitchen using separate utensils and sauces like McMasala and Mcimli were developed to satisfy the Indian taste for spice. Interestingly, however, these are now innovations they have introduced into other markets.

people live, it needs to understand the importance of society. Social class is an important part of the perception of each class and their frequency of buying goods differ from one country to another.

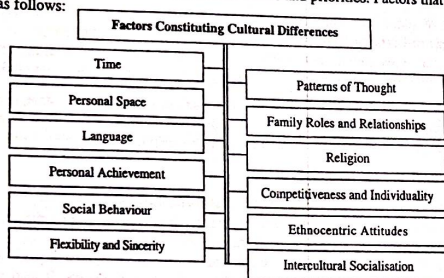
In countries like India perception and trends of the consumers have been changing owing to the liberalisation and the changes in lifestyles. Another important aspect of society is the group. The performance of groups differs in individualistic and collectivist societies. The family is an important part of the social environment. The social and cultural environment is one of the critical components of the international business environment and one of the most difficult to understand.

This is because the social and cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs and values that determine what is right for one group. National culture is described as the body of general beliefs and values that are shared by a nation. Beliefs and values are generally seen as formed by factors such as history, language, religion, geographic location, government, and education; thus firms begin a cultural analysis by seeking to understand these factors.

Before entering a foreign market, marketers should study all aspects of that nation's culture, including language, education, religious attitudes, and social values. The French love to debate and are comfortable with frequent eye-contact. In China, humility is a prized virtue, colours have special significance, and it is insulting to be late. Swedes value consensus and do not use humour in negotiations. The "etiquette tips for marketing professionals" feature offers some examples that will help you deal with cultural differences that arise in business dealings with foreign guests.

2.1.8.1. Factors Constituting Cultural Differences

The basic premise of cross-cultural differences lies in values and priorities. Factors that constitute cross-cultural differences are as follows:



- 1) Time:** Different countries assign different values to time dimension. For example, the Americans, the Germans, and the Japanese, assign very high priority to time. They value time in terms of money; hence, they are very efficient in time management. But in many other countries, such time value is absent. Because of their strong sense on time value, the Americans, most Europeans like U.K., France, the Russian as well as the Japanese, and the South Koreans are fast decision-makers, which at times put them in difficulties. Thus, perceptive difference in time value shows cross-cultural differences in relationship even in business. Understanding each other's time value is therefore very important to reduce the cultural gap.
- 2) Patterns of Thought:** Patterns of thought could be another strong issue for cross-cultural differences. Typically, Indians believe that their present, and future are the reflection of their past. Americans, on the other hand, believe that their future is ahead of them, which they can foresee. It is for this reason; Americans always take advantage of impending opportunities with an attacking strategy.
- 3) Personal Space:** Cross-cultural influences even determine the nature, and type of interactions. While interacting with others, some may believe in maintaining distance, while others prefer face-to-face

interaction. Personal spacing styles are more evident in negotiation meetings. Those who believe in maintaining distance may feel unhappy when their personal space is invaded. Let us take the example of business interactions between the Americans and the Arabs. Americans may feel uneasy with the closer interaction style of Arabs, while the Arabs may feel disturbed when Americans may keep distance from them during interaction.

- 4) Family Roles and Relationships:** Family roles and relationships influence the pattern of culture. In many societies, family roles and relationships are very traditional, personal, and predictable. The husband is the provider, the wife supervises the household, and males in the household are more valued than females. Each member of the family has a designated role and the responsibility for maintaining *status quo* for such a role. Peer pressure preserves the roles, and work situations and business interactions are less influential than familial responsibilities.
- 5) Language:** Verbal and non-verbal systems of communication systems or languages of every culture primarily reflect values and composition of languages. In Hindu mythology, Lord Krishna is an icon, for his multiple roles such as a warrior, as a good family person, as strategist, etc. He is invoked with many names, and each name indicates a different meaning. Similarly, for a Hindu, cow is a sacred animal; hence Hindus use several words for cows. Eskimos describe snow using many words and expressions. Similarly, Arabs use numerous words to describe a camel. Some of these words may not carry any meaning, but people attach meaning to them. It is for the managers to understand and observe the composition of languages to infer certain cultural cues.
- 6) Religion:** Religion is the most dominant force that influences one's culture except perhaps in communist countries like China and Cuba. Not only the cultural pattern, religion also influences the business, socio-economic, and political situation, the lifestyle of people, certain beliefs endorsed by specific religion, etc. Understanding religion-biased cross-cultural issues, therefore, becomes most important for international business.
- 7) Personal Achievement:** Achievement is another value espoused by the traditional American business person. The success and reputation of Indian business leaders are measured by the size of their organisation, the amount of their compensation, and their position in the hierarchy. The larger the organisation and the compensation, and higher the stature, the greater the respect they earn. In other cultures, especially where family time is meaningful, the quality of relationships and the time spent with family are the symbols of success and prestige. When American (perhaps subconsciously) communicates this acquisitive attitude to a culture that does not share their achievement motivation, communication channels can be damaged or severed.
- 8) Competitiveness and Individuality:** Competitiveness and individuality are the most crucial cross-cultural issues, since, from these emanate the individual ambition, aggressive behaviour, etc. In countries like U.S.A., competitiveness is encouraged, while in Japan it is discouraged as the Japanese believe in team spirit and consensual decision-making.

In India and China also, collectivity, team spirit and patience are valued more than individuality and competitiveness. Individuality and competitiveness also influence the status symbols, body language, aggressiveness, and self-advertisement. These are in conflict with other cultures that value modesty, team spirit, collectivity, and patience.

- 9) Social Behaviour:** Social behavioural pattern varies among different cultures. The Chinese people believe in taking a bite of every food item served, as this demonstrates their sense of politeness. Now, imagine a money-conscious American business hospitality meet for a Chinese delegation. The food budget would far exceed than envisaged. Similarly, the sense of punctuality is another cross-cultural cue. Punctuality is revered in American culture. It is said that such value is attached to punctuality by the Americans because of their obvious nature of impatience.

There are many other aspects of social behaviours that exert influence in cross-cultural relations. For Indians, touching the feet of the boss (especially by the lower staff) is showing respect to elders as well as gratitude. For Americans it is something unimaginable even a low-level employee will not touch the feet of the U.S. President or a company President/Chairman.

- 10) **Ethnocentric Attitudes:** Ethnocentric attitudes indicate nurturing of feelings by a culture group that their cultural values, habits, and religion are superior to others. This superiority complex is harmful for cross-cultural relations, as it often culminates in disrespect and inflexibility, and ensuing conflict. Ethnocentricity also develops the syndrome of stereotyping, i.e., a typical assumption that behaviour of people from another culture group will match with their perceived superior culture. Stereotyping at times negatively affects cross-cultural relations, and can even impair a business deal.
- 11) **Flexibility and Sincerity:** The degree of flexibility in cross-cultural relationships has to be cautiously dealt with. With a flexible approach, the superior need to analyse the responses and reactions of culturally different subordinates to interpret their reactions to the communications. It requires sincerity, and patience, empathetic listening, etc.
- 12) **Intercultural Socialisation:** Intercultural socialisation helps in awareness of each other's cultural constructs, and thereby develops informed understanding of cross-cultural behaviour, habits, actions, and the reasons. Such intercultural socialisation is important, particularly for the reasons that actions and behaviour of one culture group or the other are so different; at times it may create confusion. For example, while bowing is a form of welcome greeting for most of South-East Asian countries like Japan, for Westerners shaking of hands is the normal custom of welcoming. Similarly, leaving some portion of food after dining is considered as customary in some culture groups, but a sign of impoliteness for others.

2.1.8.2. Importance of Socio-Cultural Environment in International Business

Major social factors considered under international marketing are as follows:

- 1) **National Taste:** In Thailand, people prefer black shampoo; Nestle brews different varieties of instant coffee because people in those countries have different tastes, uncommon in other countries. Green is the favourite colour of all the Arab countries; red is still widely used in Russia, in banners, posters, and hoardings although communism is in no way relevant to modern Russia.
- 2) **Language:** Cross culture and cross border operations call for necessary language skills, e.g., South Koreans have learnt Indian languages to operate in India. One can see this in Hyundai or LG factories in India. Companies also have to change their brand names and slogans in different countries. In Japan, General Motor's slogan "body by fisher" means "corpse by fisher", and Pepsi Cola slogan "come alive" means "come out of the grave". Prior to promoting the brand, one has to take into account the socio-cultural background of a specific nation and different interpretations of a name in the local language.
- 3) **Values and Beliefs:** It is also important for companies to understand the significance of different designs and colours in different countries. For example, blue is perceived as feminine in Holland and masculine in Sweden. Green is favourite colour in the Muslim world, but is associated with illness in Malaysia although it is a Muslim country. White indicated death in China and Korea but it is the colour of bridal dresses in Europe. Red is associated with danger in many countries but it is a favourite in Russia. Another example is 'swastika', which is considered sacred in India, but has completely different connotations in the west.
- 4) **Demography:** A number of demographic factors such as age, sex ratio, family size and occupation influence the business of many companies. Different companies concentrate on different segments. For example, Barbie generates huge revenues through the children's segment of affluent countries.
- 5) **Literacy Rate:** Countries with a high literacy rate experience a better standard of living. Here the need is for standardised goods, supported by technical services. For a country with an educated population, the amount of training required for the staff will be far less than in the case of the country which has a low literacy rate. This is an important factor, as it influences the cost incurred, products manufactured.
- 6) **Female Workforce:** The most spectacular change that has taken place in the current era is the empowerment of women throughout the world. In China, Indonesia, Russia and Thailand, women are major contributors to the GDP. With economic independency, women no longer have to depend on men to make decisions about what to buy; they can make their own decisions about whether to purchase any consumer product or durable. For example, Indian women in IT-enabled services and handicrafts, Chinese women in the soft toys and ceramics and Indonesian women in garments and paperwork, who have brought great success to their countries.

- 7) **Double Income Families:** As the household income increases, the demand for the number of products increases proportionately. This is especially true for packaged food items, electronic gadgets, household appliances, health equipment, Japanese entertainment electronics and French perfumes dominate in the whole of Europe and North America. Pizza Express, McDonald and Kentucky Fried Chicken invariably rule the households of double income families throughout the world.
- 8) **Impulse Buying:** Benefit-oriented buying is taking place everywhere. Pre-planned shopping and scheduled purchases are gradually going away. Throughout the world, people need instant items. They see, ask and buy. It is a major challenge to international businessmen to provide benefits to lure impulse buying.

2.1.8.3. Influence of Social Environment on International Business

The influence of social environment on individuals and business organisation is as follows:

- 1) The behaviour, personality, attitude and thinking of individuals are influenced by the social environment.
- 2) It affects the consumption behaviour and demands of products in the market.
- 3) The culture of an individual influences their attitude towards work and business affairs.
- 4) Culture also influences the degree of individualism and collectivism in the people. It also determines their degree of independence while taking a purchase decision.
- 5) The culture has a strong impact on the outlook and attitude of individuals towards pollution, consumerism and the role of mass media and business.
- 6) Work ethics in business, corporate governance and social responsibility is also determined by the culture of the society.
- 7) Knowledge about rights and duties and work ethics is also influenced by the culture of the society.
- 8) Various structures of social division, such as the caste system also influence the consumer behaviour. For example, people of Brahmin caste refrain from buying non-veg products.
- 9) In spite of the fact that every country has a unique culture, some cultural elements are getting common due to frequent cross-cultural mobility of the people and extensive usage of modern communications.

The purpose behind buying is also determined by the social environment. For this reason, organisations need to tailor their marketing strategies according to the needs of different customers. The aspirations and beliefs also differ from country to country; therefore, the marketing mix should be planned keeping in mind such diverse social customs and standards.

2.1.8.4. Influence of Cultural Environment on International Business

The various global marketing decisions or actions are influenced by different cultural factors. Following are the influences of the cultural environment on global marketing:

- 1) **Culture Determines Goods and Services:** The decision regarding what kind of goods and services should be produced by a business is determined by the culture of the host country. It also influences the food habits, way of dressing, colour options, etc., of the people. For example, there may be a great demand of seafood in some markets whose culture supports it. However, in some countries, there may not be any demand of seafood as they find it against their cultural norms. Henceforth, it is vital for a global business to contemplate upon the culture of the host country before taking any manufacturing decision.
- 2) **Culture Determines Attitude to Work:** In some societies, culture determines people's attitude towards their work. People belonging to a particular culture are hard working as they are more committed towards their work. For example, it is believed that Arabians are comparatively less dedicated towards their work in comparison to the Japanese.
- 3) **Culture and Global Business:** Global companies operate in more than one country and hence deal with various cultures. They need to recognise the cultural and social factors of various countries and regulate their manufacturing, advertising and sales techniques as per the needs. For this purpose, they sometimes need to alter the characteristics of their products, such as design, colour, packaging and so on.
- 4) **Culture and Competitive Advantage:** The cultural ethics and customs of the society have a great impact on the costs involved in doing a business. These costs further affect the capability of a company to build competitive advantage under international market.

In case of conducting global business, the relationship between competitive advantage and culture is vital due to the following reasons:

- i) It helps in identifying possible competitors and
 - ii) It suggests countries the best alternatives for conducting manufacturing and marketing operations.
- 5) **Culture and Strategy:** The success of global business depends upon maintaining harmony between the culture and business strategy. However, it is not simple to practically attain this harmony as MNCs operate in different nations having varying cultural environment. However by successfully identifying some similarities, MNCs can control the needs to customise their business practices. It will also fulfil the demands of regional cultures.

2.2. ETHICS IN INTERNATIONAL BUSINESS

2.2.1. Introduction

Business ethics refers to the application of ethics to business. To be more specific, business ethics is the study of good and evil, right and wrong and just and unjust actions of businessmen. It may be defined as a set of moral standards which people owning and managing business is expected to follow. These standards are meant to govern the conduct of business persons. Business ethics indicates what right conduct in business matters is. It is the study of what constitutes right and wrong, in a business context.

According to Robert Kreitner, "Business ethics is the study of complex business practices and behaviours that give rise to ethical issues in organisations".

According to Miguel Velasquez, "Business ethics is applied ethics. It is the application of our understanding of right and good to institutions, transactions, activities, and pursuits called business".

The part of business ethics that handles the global issues and concerns is referred to as international business ethics or ethics in cross-border businesses. It involves the various moral judgements regarding the issues and the considerations on the basis of which the judgements can be justified or explained. Apart from this, a precise definition of international business ethics is not available. However, its meaning differs from person to person. Some people believe that international business ethics is the ethical aspect of a business relation that involves more than one nation.

The concept of international business ethics mostly revolves around multinational corporations or MNCs. These MNCs are either targeted by the critics for exploiting the developing nations (like charges against the U.S. MNCs for doing so) or are investigated for their unethical behaviour (like allegations against Nestle for using sucrose in its baby milk formula in Africa).

International business ethics comprises four types of ethics:

- 1) **Descriptive Ethics:** The ethical practices followed all over the world are described under it.
- 2) **Comparative Ethics:** It illustrates the similarities and dissimilarities in the various practices and theories of ethics which are followed all over the world.
- 3) **Normative Ethics:** The various values, principles and norms that business dealings should incorporate are described under normative ethics.
- 4) **Metaethics:** The meanings of various terms of ethics are described under it. Metaethics also questions the position of human rights, i.e., whether it is a Western concept or has a universal nature based on the view of the overall human community or simply an individual.

2.2.2. Ethical Values in International Business

International business includes the following ethical values:

- 1) Optimum and appropriate utilisation of the host nation's natural resources.
- 2) Natural resources should be utilised for producing goods which should be consumed by the domestic people. In case of export of such goods, the host nation should receive the benefits of the foreign exchange.
- 3) Joint ventures with the host nations' firms to be preferred while entering any foreign nation.

- 5) The human resources department and the managers of the host nations, especially of the developing ones, should be developed.
- 6) The following responsibilities towards the host nation's social segments should be carried out:
 - i) Developing facilities like roads, water, public utilities, educational institutes, hospitals, etc.
 - ii) Donating things like computers, books, medicines, etc., to the various educational institutes and people.
 - iii) Marketing the products that have quality and are economically appropriate. Any damaged or obsolete products should not be marketed in the developing host nations.
 - iv) Any good or service that does not match with the host nation's culture should not be marketed.
 - v) Any good or service that could potentially damage the health of the host nation's citizens should not be marketed.
 - vi) Developing the skills and offering employment opportunities to the people of the host nation.
 - vii) Fair and equal treatment of the local workers as well as the foreign workers in terms of providing suitable working environment, career advancement, salary, etc.
 - viii) Not getting involved in the host nations' political affairs.
 - ix) Providing assistance to the Government of the host nation in the event of any natural calamity such as cyclones, earthquakes, droughts, floods, etc.
 - x) The government executives of the host nation should not be corrupted or bribed.
 - xi) The accounts should be maintained in an ethical manner according to the host nation's accounting standards.
 - xii) Sound business relations should be maintained with the middlemen, suppliers, financial institutions, bankers, etc.

2.2.3. Ethical Issues in International Business

Managers have encountered several ethical issues in international business lately. Some of these issues are described below:

- 1) **Export Subsidies:** This issue emphasises on the tariff and non-tariff trade barriers, restrictions put by subsidies, unequal access to the international markets between the rich and poor countries. Rich countries look after their industries and farmers. Due to this, the poor nations remain as they are with little or no chances of improvement. For example, Africa still supplies raw materials to other countries and registers little growth.
- 2) **Bio-Piracy:** The process of commercially exploring, extracting and exploiting the biodiversity of various foreign regions for profit motives is referred to as bio-piracy. For example, pharmaceutical and agricultural firms of Europe and Japan exploit poor nations and take away their beneficial medicinal plants and germ-plasm without adequate compensation in return. Forests of tropical nations offer wood like timber for which they are not paid adequately. There are some pharmaceutical firms that collaborate with educational institutes to carry out expeditions for the purpose of collecting plants with valuable medicinal properties. Over 10,000 species of plants and organisms are estimated to be taken from the forests of Amazon for the purpose of examination and study. The Indian Government, in 2002, passed the Biodiversity Act to discourage the practice of bio-piracy on an international level. Any Indian or foreign organisation that violates the law shall be punished.
- 3) **Safety and Environmental Issues:** One of the topics of debate is whether or not the norms regarding pollution and safety of the home country should be implemented in the host nation. It is also observed that the Western nations have strict rules regarding environment protection and safety. If the developing host nations follow those norms, then there will not only be an increase in their production cost but also a complete destruction in the competitive strength of the domestic producers. On the other hand, if the developing host nations do not follow those norms, then this will mean not going along with the ethical customs and practices of the MNC. For example, Western nations consider child labour as unethical but most of the developing nations employ children as labour. Therefore, consistency should be adopted by the firms in these cases. The domestic customs and practices should be adhered to as long as they can be tolerated within the standards of the firm. Conversely, if such local customs cannot be tolerated, then the firm must abide by its own practices and norms of ethics.

- 4) **Issue of Corruption:** Bribery is not considered ethical in most of the Western nations. Under the Foreign Corrupt Practices Act of the USA, no foreign official can be bribed by firms. If any firm belonging to the OECD countries is found bribing in the foreign lands, then that firm is not allowed to get benefit from the deductions in tax. It is believed that through bribery, the approval process speeds up and the MNCs do not have to wait in queues.

However, it should be noted that the money received through bribery is not productive since it cannot be circulated. As a result, the economic rate of growth decreases. Therefore, it can be said corruption and bribery are not productive in nature. In contrast, bribery is still in practice in most parts of the world. For example, reciprocal gifts are ethical and a common practice in China. Therefore, a clear line of distinction between an ethical (from the point of view of the local traditions) and an unethical practice has to be drawn by the managers in such cases.

- 5) **Issue of Consumerism:** A number of activities related to consumer protection are organised in the developed nations. However, this is not the case in the developing nations. There are reports stating that a lot of harmful and dangerous products are sold by MNCs in the developing nations. For example, plants having medicinal value that are not legal in the home country are sold by firms in different foreign markets. Human trials for testing and experimental purposes are also performed by the firms. Tobacco manufacturers face restrictions while selling their products in the home country, but no such restrictions are faced by them while selling in different developing nations. They are even marketed with very less warnings. Therefore, MNCs are advised to handle the issue of CSR with extra care. They should follow the norms of their home country so that they can adhere to the ethical norms.
- 6) **Issue of Transfer Pricing:** The means through which the illegal transfer of funds is encouraged within the various departments of the firm by way of under invoicing or over invoicing of imports and exports is known as transfer pricing. However, there are several nations where transfer pricing is restricted. These practices are to be checked by the authorities at customs. Nonetheless, the practice of transfer pricing is common in many nations. But it also should be noted that the overall tax liability of a firm is lowered through transfer pricing. It also smoothen the international cash management of the firm. But this practice is not ethical since it results in a loss for the exchequer in the host nation as well as the home nation.

2.2.4. Importance of International Business Ethics

The importance of ethics in international business cannot be ignored. The following points describe the importance of international business ethics:

- 1) **Ethics Corresponds to Basic Human Needs:** Being ethical in both personal and professional lives is the desire of a person. Therefore, a manager has to be ethical in his/her decisions since a lot of lives depend on it.
- 2) **Ethics and Profit Go Together:** It is believed that a firm is likely to profit if it follows an ethical code of conduct. Firms that are driven by values and ethics achieve success in due course of time. However, they might run in loss in the short run.
- 3) **Law Cannot Protect Society, Ethics Can:** Ethics succeeds where law fails. A management that is oriented towards ethics and values strives to not only protect the health of its workers but also prevent pollution.
- 4) **Ethics Facilitates Better Decision-Making:** Better decisions are facilitated by ethics. The shareholders, employees, public and other stakeholders of a firm always benefited from the decisions that are driven by ethics. This is due to the fact that every aspect, be it ethical, social or economic, is considered by the management while taking decisions.
- 5) **Ethics Improves Cooperation:** Coordination and cooperation is required among individuals at every level of the organisation. These individuals also share and transfer all sorts of values such as equality, mutual respect, responsibility, trust, etc. Such values promote a working environment that is both conducive and healthy which in turn results in the success of the firm.
- 6) **Ethics Promotes Moral and Social Values:** Other important social and moral values are promoted through ethics. Also, practicing proper ethics leads to the reinforcement of values such as safety and health, abiding the law, animal protection, human rights and social responsibility. A person will not be able to achieve success if his/her values are not right. For example, patients can be harmed or even killed in case a clinical trial is made up by a person with the help of false data.

2.2.5. Ethical Behaviour of Employer Helping in Growth of Business

Behaviour and ethics in the workplace constitute significant aspects of employment. This is because the firm's efforts towards its growth and success are aided by both of these aspects. Actually, to most firms, ethical behaviour and performance hold equal importance because to achieve success, both teamwork and high morale are essential. There are some guidelines that employees of every organisation have to follow. The ways through which the ethical conduct of employers can facilitate business growth are given below:

- 1) **Helps in Upholding Moral Values During Tough Times:** In tough times, certain changes have to be undertaken by businesses. In such situations, a manager can get confused between which action is ethical and which is unethical. This might be due to lack of guidance that makes them unable to execute the changes. Therefore, in tough situations, ethical conduct not only guides the managers but also assists them in maintaining organisational morals and values.
- 2) **Increases Employees Motivation:** The focus of an organisation should be towards implementing workplace ethics. With the help of this, values such as community, openness and trust can be implemented. All these make up significant parts of a group or team. In this way, employees will work with greater motivation because they are aware of the fact that same values are shared by them as well as the organisation.
- 3) **Supports Employee Development:** Because of the ethical conduct of the employers, the employees get a clear understanding regarding the right and wrong in the organisation as well as in them. This assists the employees in the efficient and effective management of ethical issues.
- 4) **Avoids Unethical Acts:** Sometimes, managers are aware of the fact that a certain action is unethical. It is also possible that the unethical action might not be properly checked by them. In such cases, the action could be termed as illegal. The ethical issues and unethical actions can be discovered beforehand with the help of ethics. This helps in resolving such issues in an easy manner. Hence, the unethical actions can be avoided with the help of ethical conduct which thereby assists the firms in eliminating the penalties and fines.
- 5) **Creates Positive Image:** Workplace ethics can help a firm in developing a positive image among the employees. This also helps in gaining the trust of the employees since the firm caters to their needs instead of just earning profits. Integrity and honesty are incorporated in the operations of the firms that have workplace ethics. Therefore, positive relationships between the firm and its employees are developed because of ethical behaviour and conduct.
- 6) **Improves Cooperation:** A spirit of cooperation exists in the organisation that is driven by ethics. A business can highly benefit from a cooperative work environment. This is known to individuals who have a good sense of work ethics. The benefits of cooperation and teamwork is also realised by them. Therefore, additional efforts are put in by such individuals so that they could work with others in a better manner.
- 7) **Reduces Possibilities of Errors:** By following ethical norms and conduct, knowledge can be gained, truth can be verified and the possibilities of mistakes are reduced. Therefore, mistakes are reduced when ethical behaviour is implemented in the workplace. This also prevents the data to be misrepresented and manipulated which ultimately results in the growth of the business.

Examples of Ethical Behaviour by Employers

- 1) **Starbucks:** Starbucks is prompt in resolving issues regarding the environment. For this, it started using recycled paper for its cups as well as reduced its usage of water. Consumers are also encouraged by the company to be conscious about the environment. Consumers who bring reusable cups of their own are offered a 10% discount. Moreover, those who want to use coffee for composting are also given free coffee grounds. Starbucks also takes care of its workers. It provides them stock awards and benefits of full health insurance. Further, it is also a supporter of same-sex (gay) marriage.
- 2) **Intel:** Intel is a manufacturer of computer chips. It is looking to improve its image by putting in efforts towards providing education in technology, since 1988. The Intel Foundation is an initiative of Intel through which it organises talent hunts and fairs like International Science and Engineering Fair and Intel Science Talent Search to educate the youth. The company is also looking forward to diversify these areas; it runs donation funds to encourage the underprivileged and girls so that they could also study. The

company emphasis on the study of STEM, i.e., science, technology, engineering, and mathematics. Intel also takes care of its employees. Every 16 months to 2 years, the employees are reassigned or promoted so that they do not feel stuck or monotonous in their jobs. In this way, new and exciting fields are explored by the employees.

- 3) **Microsoft:** Bill Gates is the founder of Microsoft. He is considered as the most generous philanthropist of America. It looks like Microsoft exactly follows the lead of its founder. More than \$1 billion per annum are donated to non-profit organisations and charities by the company and its employees. Microsoft has also started a programme by the name of TEALS in order to handle the shortage of IT professionals in America. Through this programme, the employees of Microsoft attempt to inspire the students of local schools to enter into the field of technology. Microsoft employees are America's highest paid employees. Microsoft also showers its employees with perks; one of those perks includes full coverage on their health care premiums.

2.2.6. International Codes of Business Conduct

Due to the possibility of damaging conflicts arising between countries and MNCs, the international community formulated the Codes of Practice mainly for governing the operations of multinational corporations. Such conflicts created a scenario in which an international action was much needed because the poorer and smaller nations were facing difficulties in controlling the behaviour of MNCs in their respective countries.

As a result, the standards and guidelines of conduct for multinational corporations were prescribed to be followed willingly as 'rules for the game' and not as binding laws. Hence, the codes held a moral obligation by their contents but were not enforceable by law. The primary goals of such codes were to encourage foreign investment, defend consumers' and workers' interests, ensure that the actions of MNCs are compatible with the development programmes of host nation, and enable the resolution of differences between governments rising from the activities of the MNCs.

A team having members from economically advanced Western countries, underdeveloped nations and the communist Eastern bloc drafted these Codes. There were numerous disagreements regarding the phrasing of the documents but all of them were founded on similar fundamental grounds as given below:

- 1) MNCs must contribute towards the growth and development of the overall society and the economy of the host nation. They should be thoughtful of the needs of the public of poor countries and must agree to the rights of consumers and employees.
- 2) Governments of the host countries should develop suitable legal frameworks for the working of the MNCs and must treat them in a fair manner.

2.2.6.1. Driving Factors for International Codes of Business Conduct

The driving factors for International Codes of Business Conduct are given below:

- 1) **Conflicts of National Laws:** A multinational company is prone to several legal systems as it conducts its business operations in more than one nation. Every subsidiary of an MNC has to follow different regulations and laws and deal with the conflicts that might arise. Companies should consider the odds and assess the possible measures that can be taken when the government of the host nation forbids its corporations to trade with a particular foreign country.
- 2) **Varying Demands:** The notion that different countries enforce different demands on MNCs working within a host country also acts as a driving factor for international codes of business conduct.
- 3) **International Framework:** Trade conduct through the GATT and formation of international regulatory mechanisms through the IMF develops an evident gap related to foreign direct investment.
- 4) **Unethical Practices:** Unethical practices of MNCs in the early 1970s and 1980s can also be considered as a factor behind the formation of such codes. These practices involved bribing of politicians, neglecting of health and public safety measures, attempting to destabilise the host governments, etc.

2.2.6.2. Sources of International Codes of Business Conduct

Given below are the various sources of International Codes of Business Conduct:

- 1) **United Nations Code of Conduct for Transnational Corporations, 1983:** This code of conduct involves a wide range of recommendations regarding how should an MNC behave and how should it be treated by the government of the country. This code of conduct originated in 1948 in a UN meeting in Havana, Cuba. The meeting required the host nations to place limits on ownership, secure foreign investments, and enforce other suitable restrictions.

According to the UN code, the MNCs:

- i) Should respect the sovereignty of host nations and abide by their local laws, administrative practices and regulations.
- ii) Obey the local rules, development objectives, socio-cultural values, and economic goals of the host country.
- iii) Should not intervene in the inter-governmental relations or internal political affairs.
- iv) Respect the human rights.
- v) Not get involved in unethical and corrupt activities.
- vi) Involve good systems regarding abstaining from participation in anti-competitive deeds, payment of taxes, treatment of workforces, and protection of consumers and environment.
- vii) Reveal important facts and information to the governments of the host nations.

- 2) **OECD Code of Practice on MNC Operations, 1976:** OECD code of practice on MNC operations are intended to encourage actions of MNCs towards the growth and development of overall economy and society of the host countries. According to the OECD code, MNCs were required to:

- i) Contribute towards the attainment of science and technological goals of the host nations by spreading technologies.
- ii) Behave in a way so that the competition is not restricted.
- iii) Disclose complete information for tax related matters.
- iv) Provide suitable working conditions to workforce, avoid partial discrimination in hire/fire decisions, and consult employee representatives in concern with matters related with variations in operations.
- v) Take into account the goals of balance of payments of host countries while taking any decision.
- vi) Reveal important information regularly to the public on matters related to operations and finance.

- 3) **ILO Declaration on Multinational Enterprises and Social Policy, 1977:** ILO adopted this code and considered various issues related with vocational training, employment, industrial relations and working conditions. This code was formulated by a three-party body which included employers' organisations, representatives of national governments and trade unions. These codes facilitate consultation and discussions between the management of the MNC and the workforce. However, these codes fail to call for a global discussion between employee representatives and managers of all associates of an MNC.

- 4) **Social Accountability International (SAI):** A practical initiative is provided by the Social Accountability International which aims at improving and promoting ethical business conducts and activities across the world. This is done with the help of SA 8000 which is a certification mechanism. This certification can be obtained by enterprises after their business practices are audited by the authorised and registered third parties. Frederick Bird pointed out that SA 8000 certification has benefitted numerous enterprises in more than 30 nations having approximate 1,70,000 employees, representing 36 distinct industries. For promoting alertness and obedience of standards, SAI has sponsored several extensive training programmes. It is also putting continuous efforts towards promoting the business responsibility, especially regarding labour practices.

- 5) **Global Reporting Initiative (GRI):** In 1977, the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES) together founded the Global Reporting Initiative (GRI) in an attempt to form standards on various matters concerning international trade. Contrasting to SAI which focuses on precise or narrow environmental and social issues, GRI addresses broader issues. It emphasises on auditing those activities that are focused upon public revelation of

significant information. GRI is encouraging enterprises to report their business practices within a format of fundamental and standardised questions that include factors responsible for economic influence on environment, stakeholders, society, product responsibility and treatment of workers. GRI has even formulated a set of important guidelines for helping the members to prepare accurate, transparent, complete and timely reports.

- 6) **Institute for Social and Ethical Accountability (ISEA):** Headquartered in London, the Institute for Social and Ethical Accountability (ISEA) was established in 1995. This institute is commonly known as Account Ability. Based on its name, the Account Ability has developed AA 1000 which is an autonomous index that evaluates companies on the basis of their commitment towards ethical and social concerns, and learning processes. It is a self-governing procedure that aids the socially responsible companies to develop a suitable outlook on their businesses activities. AA 1000 significantly assists enterprises along with their different stakeholders in comprehending as well as improving the methods of meeting their numerous interests.

2.3. CSR IN INTERNATIONAL BUSINESS/SOCIAL RESPONSIBILITY OF GLOBAL FIRM

2.3.1. Introduction

Social responsibility is one of the significant recent trends in business. Today, every business emphasises on social responsibility because their sustenance, survival, and encouragement are dependent on society. No business can sustain without proper support of society because society provides the necessary resources in the form of men, money, and skills, as well as a market place for selling the products. Thus, it is the responsibility of every business to give something back to the society in the form of return. This responsibility is known as the Corporate Social Responsibility.

The concept of Corporate Social Responsibility (CSR) or social responsibility is gaining significant prominence for national as well as international business. With the increase in globalisation, the large business corporations have turned out to be global providers and have been able to know the importance of the providing CSR programmes across their several locations.

The world is now experiencing an increase in CSR activities. International businesses should understand the expectations of society and the actions taken by them to meet such expectations. International business' social impact is certainly nothing new, but recent global problems like HIV/AIDS, poverty, climate change and human rights violations are causing renewed interest in this area. In order to contribute to a more sustainable economy, companies are increasingly being asked to play a positive role.

Due to their influence and activities, Multinational Corporations (MNCs) face a wide range of issues, stakeholders and institutional contexts, both in their home countries and in the countries where they operate and therefore they are required to emphasise on CSR more actively.

2.3.2. Tools of Corporate Social Responsibility

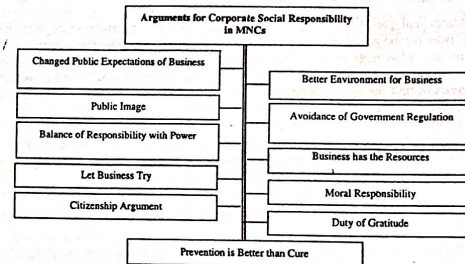
Following are the tools of corporate social responsibility:

- 1) **Accountability:** It explains the processes that should be followed by business to be responsible for its performance. It primarily focuses on enhancing the quality of social and ethical accounting, auditing, and reporting. It merely provides a rational explanation or justification to the acts and omissions to which a person is responsible with a legitimate interest rather than including the levels of performance that should be achieved by the organisation.
- 2) **Codes of Conduct:** The prime objective of codes of conduct is to facilitate the routine decision-making process by acting as a central guide and reference. It identifies the mission, values and principles of the organisation and aligns them with standards of professional conduct. The guidelines typically include provisions regarding child labour, wages, forced labour, working hours, benefits, freedom of association, discipline practices, and health and safety.

- 3) **Fair Trade:** It is gaining a significant interest in international business. It focuses on ensuring that each producer is treated fairly within trade relations. In fair trade, the producer and buyer work in partnership to establish long term commitment, stable prices and greater market involvement, challenging traditional wisdom about trading relations.
- 4) **Social Accountability:** In order to ensure social accountability standards, Council on Economic Priority Accreditation Agency (CEPAA) developed an international standard. Any organisation or business in any industry can apply this voluntary standard. A Social Management System (SMS) must be implemented in addition to performance standards for ensuring adherence and continuous improvement in social performance with respect to pre-defined practices.
- 5) **Socially Responsible Investing (SRI):** This term refers to a wide range of investment practices that takes into account the financial as well as social and environmental factors. In order to develop a sustainable community, SRI helps companies to use investment as a tool to improve their business practices. CSR can be effectively promoted through SRI if the organisation has understanding of traditional investment practices, methodological approaches, and money to invest.
- 6) **Global Reporting (GR):** This multi-stakeholder international initiative is used for developing and providing global sustainability reporting guidelines. The prime objectives of GR are to improve reporting quality, and ensure consistency, comparability, and practicality. There are 54 core indicators in GR, which are organised into three categories, namely financial, social, and environmental.

2.3.3. Arguments for Corporate Social Responsibility in MNCs

Following are the arguments in favour of corporate social responsibility in MNCs:

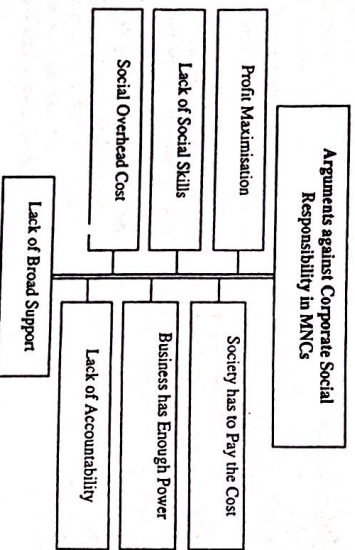


- 1) **Changed Public Expectations of Business:** The most powerful argument in favour of the CSR is that the expectations of public from businesses have changed drastically over time. A business institution exists solely to satisfy society's valuable needs. The charter of the business is given to it by society, and it can be amended or revoked anytime the business does not live up to what society expects. Thus, a company's long-term viability depends on its ability to respond to society's needs and to provide the society with what is demanded by it.
- 2) **Better Environment for Business:** The environment for business is improved by social responsibility. It is based on a conception that social responsibility ensures better social conditions which eventually provide better environmental conditions that are more favourable for business operations. Thus, business will be better conducted in a community where firms are responsive to social responsibility and improving community quality of life. Better environment ensures fewer turnovers and absenteeism, and makes labour recruitment easier.
- 3) **Public Image:** Improved public image is also an argument in favour of social responsibility. An enhanced public image will enable each firm to attract more customers, hire better employees, and increase its ability to access the money markets. It is important for a company to support social goals if it wants a better public image.

- 4) **Avoidance of Government Regulation:** There is no doubt that Government is a massive, powerful institution with long arms that tries to regulate business in public interests. Government regulation is costly and obstructs the freedom of decision making and thus business must discharge its duty to society before government stretches its long arms.
- 5) **Balance of Responsibility with Power:** According to this argument, the responsibility of every business should be associated with its power. Businessmen are considered to have enormous social power and they have considerable influence on the minorities, economy, and other social problems. Thus, they are required to contribute an equal amount of social responsibility to maintain balance against their social power.
- 6) **Business has the Resources:** Social responsibility should be favoured because businesses have a great deal of access to men, talents, money, and functional expertise, from the society. In fact, business cannot have its existence without these resources. Thus, in exchange of access to these resources, every business should contribute to work for social goals.
- 7) **Let Business Try:** There is an interesting argument for business social responsibility which is indirect. Since many institutions have failed to handle the social problems, therefore business should be given a chance to solve the social problems. They can be proved to be a good solution to social problems. People are increasingly turning to businesses as a result of the failures of other institutions.
- 8) **Moral Responsibility:** It is morally correct for corporations to accept social responsibility. It suggests that large corporations contribute to several serious social problems in our modern industrial society. It is therefore the corporations' moral responsibility to help resolve or alleviate these problems. In light of this, it is recommended that since businesses use a lot of resources of the society therefore they should invest some of these resources for ensuring the overall betterment of society.
- 9) **Citizenship Argument:** As institutional members of society, corporations bear the same responsibilities as individuals to contribute to the improvement of society. Corporations, like citizens, are created by society and therefore corporations have some civic responsibilities and duties, just like citizens.
- 10) **Duty of Gratitude:** Business receives various benefits from the society. There is a widely held principle that one who receives benefits owes debts of gratitude towards those who provide such benefits. Based upon this principle, the business units owe the society certain debts.
- 11) **Prevention is Better than Cure:** Preventive measures are always better than curative measures. Businesses may become preoccupied with social problems if they delay dealing with them now, which will mean they are unable to produce goods and services. In light of the fact these social problems must be resolved at some point, because addressing them before they develop into serious social breakdowns may actually be more cost-effective than letting them grow into severe social problems that consume most of management's time.

2.3.4. Arguments against Corporate Social Responsibility in MNCs

Following are the arguments against corporate social responsibility in MNCs:



- 1) **Profit Maximisation:** Businesses primarily aim to maximise profits, which is the strongest argument against social responsibility. When businesses focus on their own interests and leave the rest to others, they will be considered the most socially responsible businesses. Since businesses operate in an environment of hunger and poverty, maximising their economic efficiency is their top priority, and it should be their sole mission. The only measure of success in business should be economic values rather than social values. Managers are at the mercy of stakeholders in this kind of system, and all their decisions are dictated by their desire to maximise profits for shareholders while complying with social customs and laws.
- 2) **Society has to Pay the Cost:** There is also an argument that social responsibility costs will ultimately be passed down to society, and it is therefore the society's responsibility to bear them.
- 3) **Lack of Social Skills:** Usually, the business managers are best at handling business-related issues rather than solving social issues. This is because their outlook is primarily economic, and their skills are the same. They do not feel at ease in solving social problems. There have already been attempts by companies like Shroffs, Mafatlals, and Lalbais to hire professionals in the area of social responsibility.
- 4) **Business has Enough Power:** There is also an argument that business already has too much social power, so society should not increase its power. Today, business is considered as one of the most powerful institutions in society. There is a powerful impact of business on society. It can be felt in education, in the home, in government, and in the market. It shapes many social values. When social activities are combined with the economic activities of business, power will be excessively concentrated in the hands of business. Giving more power to the business sector is not a good idea since it is not considered a good institution.
- 5) **Social Overhead Cost:** The costs incurred by business for social responsibility are considered as social costs. These costs do not provide any immediate benefit to business. In fact, the performance of few government enterprises is not satisfactory due to their high social overhead costs.
- 6) **Lack of Accountability:** Furthermore, businessmen are not directly accountable to the people; therefore, giving them responsibility in areas for which they are not accountable is not advisable. Responsibility should always accompany accountability, and any other arrangement reflects poor social control. The business community must remain away from social activities until the society develops mechanisms to establish direct lines of social accountability between business and the public. Thus, businesses should emphasise only on their profit motive because they are accountable for profit through the market system.
- 7) **Lack of Broad Support:** All groups in society do not support business involvement in social goals. It is likely business will be unable to fulfil its social mission if it becomes socially involved due to friction created by the disagreement between the parties of society. The idea of businesses becoming more socially responsible is opposed by many people. Among businessmen themselves, as well as among the general public and intellectuals, there is no common agreement regarding the social responsibility of business.

2.3.5. Corporate Social Responsibility Issues in MNCs

Following are the corporate social responsibility issues in MNCs:

- 1) **Transparency Issues:** While implementing CSR in its different subsidiaries, companies must focus on issues of lack of transparency. As CSR is a voluntary activity, there is not a lot of control over what is being done in the organisation, how the funds are being used, or the impact of the activities held in society. Furthermore, there are various instances of fund misuse when multinational corporations engage in CSR in other nations, which are typically developing nations. In these situations, the lack of a regulatory body or other auditing organisation makes it impossible to determine whether the fund has been used appropriately or whether the programme itself is in operation.
- 2) **Lack of Knowledge:** In most of the developed nations, the terms 'CSR' and 'business ethics' are very common and their importance and implications are more or less known to almost every person. However, in developing countries, there is a lack of understanding about the term itself and therefore they do not significantly participate in the CSR programme. It results in a lack of participation of different infrastructures and non-governmental organisations in the program, eventually making it ineffective.
- 3) **Absence of Infrastructure and NGOs:** It is unlikely that global companies will have to face this challenge in developed countries, but they face it in other countries. For example, in the US, a