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THE PEOPLE'S
UNIVERSITY

MS-97
International Business

Indira Gandhi
National Open University
School of Management Studies

Block

5

EMERGING ISSUES

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BLOCK 5 EMERGING ISSUES

This block discusses the miscellaneous issues arising in International business.

Unit 16: Corporate Social Responsibility and Ethics in Business

This unit discusses the concept of Corporate Social Responsibility and business ethics separately. It tries to differentiate between the two and their importance in the corporate world. With growing competition, the need for CSR and business ethics in the corporate world has increased. Therefore it has become important to study such issues.

Unit 17: Emerging Market Economies

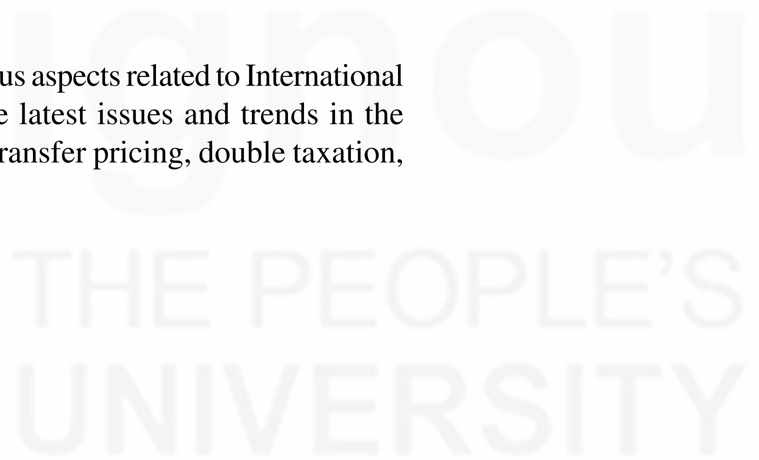
In this unit the learner is exposed to the concept of Emerging Market Economies (EME) and their features. This unit also gives an insight into BRICS, African and South Asian Markets and EU with respect to different macro environmental factors.

Unit 18: E-Business

With growing use of technology in every walk of life, it has become important to discuss the concept of E-business. The online portals worldwide have made their presence felt in terms of doing business. This unit tries to highlight the importance of e-business and the application of ICT in different functional areas.

Unit 19: Operating in Borderless World

The different blocks and units have covered various aspects related to International Business. This unit in particular deals with the latest issues and trends in the International Business. It discusses issues like transfer pricing, double taxation, IPR etc.



UNIT 16 CORPORATE SOCIAL RESPONSIBILITY AND ETHICS IN BUSINESS

Objectives

After studying this unit, you should be able to:

- define the concepts of corporate social responsibility and business ethics;
- differentiate these two concepts from similar concepts, particularly corporate governance, corporate values, and corporate philanthropy;
- identify and assess how these concepts have become significant in the emerging world;
- comprehend the implications of these and their impact on the management of contemporary corporates and other organizations; and
- examine how these can be operational enhancing the social benefits that these can produce in the entire economy.

Structure

16.1 Introduction

16.2 The Basic Concepts

16.3 Corporate Social Responsibility (CSR)

16.4 Business Ethics and Corporate Values

16.5 Sustainable Growth

16.6 Corporate Governance and CSR

16.7 Corporate Philanthropy and CSR

16.8 Summary

16.9 Key Words

16.10 Self - Assessment Questions

16.11 References

16.1 INTRODUCTION

Ethics in business, as in daily life of individuals or groups of people, is a precondition of civilized societies. It encompasses the entire fabric of business and business activities. It presupposes that business exists not only for profit to the entrepreneur (or the investor) but that it is carried out for the welfare of societies. Any business draws upon and contributes value to the society. No business can be isolated from the society. This premise will become clearer as we delve deeper into the subject.

To start with, a second premise, which will be developed later, needs to be recognized. The contemporary world has, in the recent decades, gone beyond business ethics. Business ethics is one dimension of the multifaceted phenomenon of Corporate Social Responsibility (CSR). It is only a building block of the latter. An essential component of CSR is good business ethics. Devoid of good business

ethics, CSR would remain rudderless; but CSR encompasses a lot more and makes business ethics more meaningful in its wider context.

With the emergence of a new global economic environment since the 1980s, several new concepts and configurations of governance and free market mechanisms have come into vogue. A free trade regime has been shaping under the auspices of the World Trade Organisation (WTO). The realisation is growing that 'poverty anywhere is a danger to prosperity every where'. Due to the sweep and speed of the twin technologies, Information and Communication Technologies (ICT), the global village has nearly arrived. Along with these historic developments, international cooperation in many vital areas, such as in healthcare, education, biotechnology and exploration in space, is deepening, widening and expanding. While UNDP's *Human Development Reports* have given a new meaning to governance in public life, the need for social sustainability has provided inspiration for a new direction in the corporate world. Corporate responsibility to the whole group of stakeholders is slowly but steadily becoming an act of business and social missions.

Activity 1

Visit any Company of your choice and identify how is the theory of corporate social responsibility consistent with the dictum that the purpose of all business activity is to earn profit.

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16.2 THE BASIC CONCEPTS

There are at least seven concepts which serve similar or overlapping objects or are overlapping in some of their elements. These are:

- Corporate Social Responsibility (CSR)
- Corporate Governance (CG)
- Business Ethics or Ethics in Business (BE)
- Corporate Values
- Corporate Philanthropy
- Corporate Social Objectives
- Green Corporation

Each one of these has its own conceptual basis, domain, rationale; area of application and impact.

Corporate Social Responsibility (CSR) envisages a corporate's (meaning, in the ultimate analysis, those who manage and control the corporate) commitment to be fair, transparent, and caring for all the stakeholders, internal and external,

including the community and the state. It could apply to any organization. Its application is not mandated by any regulation or statute. It has evolved over time. The third element of the Triple Bottom line is a new dimension of CSR.

Corporate governance is concerned with the total management of the organization and the obligations of the top management, in particular, to ensure transparent operation of the corporate taking care, in particular, of the interests of the shareholders and achieving the planned and promised results. Certain aspects of corporate governance are being mandated by regulations, such as of regulatory bodies or of the stock exchanges.

Business ethics is a matter of corporate behaviour (including the behaviour of the individuals working for the corporate). Like CSR, business ethics is not regulated by laws or institutions, except that good business ethics demand that laws are not violated. Business ethics follows corporate values but where corporate values violate business ethics, the latter prevails. Business ethics is not rule-based and is open to different interpretations under different conditions. Business ethics emerge from moral values of individuals, groups or societies and it has cultural linkages.

Corporate values are the basic principles of conduct adopted implicitly or explicitly, and followed by a corporate entity or organization. These are partly expressed and communicated and partly understood by practice. Business ethics is based on corporate values but some corporate values may not be consistent with business ethics. Nevertheless, good corporate values must conform to the needs of business ethics.

Corporate philanthropy is not the same as CSR, but in many quarters, it is believed to be synonymous with it. CSR is a much wider term. Corporate philanthropy could be a positive constituent of CSR but CSR could exist without corporate philanthropy. Acts or programmes of social good are undertaken voluntarily as the corporate management considers its duty to help the society where some segments need economic assistance. Corporate philanthropy is normally extended to some sections of the community basically outside the employees, but some help to the employees may also be stated as social philanthropy. CSR is a must; so are the dictates of corporate governance, but corporate philanthropy and its dimensions are wholly optional.

Corporate social objectives constitute a broad framework of the objects which a corporate strives to achieve beyond those directed towards earning profit. In adopting acts of corporate social philanthropy, the corporate may be targeting corporate social objectives, as it does in following CSR.

Ever since the worldwide awareness has emerged on the issues of environment preservation and protection, the concept of Green Corporation has developed. It is aided by the Global Compact sponsored by the United Nation's Secretary General. The concept is based on the corporates following a policy which seeks to avoid waste of non-renewable resources and impacting the environment. It envisages products, processes and practices which impact the environment. Several corporates around the world have taken serious initiatives towards that end. It serves corporate social objectives while fulfilling the demands of CSR.

Activity 2

Consult a Business entity and develop a fish diagram which incorporates CSR, CG, business ethics, corporate values, corporate social values, Green Corporation and corporate philanthropy.

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16.3 CORPORATE SOCIAL RESPONSIBILITY (CSR)

The emergence of the concept

A survey conducted by the Economic Intelligence Unit, London, has indicated that 54% executives in a global survey in 2000 believed that the concept of Corporate Social Responsibility was central to the decision making of their corporates. That figure expanded to 85% in 2005. The report also indicated that "until recently companies often regarded Corporate Social Responsibility as a piece of rhetoric intended to placate environmentalists and human rights campaigners but now companies are beginning to regard CSR as a normal facet of business and are thinking about ways to develop internal structures, processes and practices that will emphasize it more thoroughly."

Once it is realized that the only contributor to the economic performance of an enterprise is not the investor, but there are equally significant other contributors, the role of CSR can be fully realized and recognized. In the successful enterprise of today, the whole community and, especially the state representing the community, contributes as significantly as the investor. In a modern corporation, even the financial stake of the principal investor is very insignificant since there is an increasing dissociation of control from ownership as a result of the participation of a large mass of common shareholders (whose rights are basically limited to receiving paltry dividends), large borrowings and still larger credits from vendors and service providers.

Corporate Social Responsibility is the form of corporate governance which seeks to incorporate and operationalize its social obligations in carrying out its activities. It addresses the concerns of all stakeholders and enhances value creation for them. The stakeholders include the shareholders (the investors), the consumers, the people who work for it, the resource suppliers, the vendors of materials and services, the state and the community.

An important component of CSR is to preserve and protect the environment. CSR is a complex configuration and encompasses a broad spectrum of corporate governance.

Practically all programmes of CSR develop a written 'vision statement' and many an 'ethics statement'. Several corporates stop at these statements; others design strategies and put the goals into action.

Factors leading to CSR

The basic elements for the promotion of CSR are:

a) professionalism in the organization, which is essential to initiate and sustain CSR;

b) cultural environment in the organization hospitable to the development of CSR;

c) commitment of the top management to the objective and its operationalization in the organization;

d) corporate strategy and practices which conform directly or indirectly to and not mitigate the objective of CSR.

Among some of the management and economic analysts, Milton Friedman, the Nobel Prize winner, is one who has held the position that the responsibility of business is exclusively to maximize profit for shareholders. In the present day world, it requires no effort to demolish this obsolete theory. Environmental degradation, generation of inequity – not only inequality – and poverty and the new business and economic imperatives have given a decent burial – at least, in its deep realization and public admission – to the Friedman theorem. It is universally recognized even by the capital owners and captains of industry that the corporate manager has several other stakeholders to serve besides the shareholder. In the same vein, Tony Blair, the then Prime Minister of the UK said "The 21st century company will be different. Many of Britain's best-known companies are recognizing that every customer is the part of the community and that *social responsibility is not an optional extra*".

Constraints in operationalizing CSR

There are number of constraints to the adoption of CSR.

1) CSR still remains clouded in terms of what precisely it implies. There is no clear understanding of the concept. Different people consider it differently in terms of its concept, content and coverage.

2) CSR is equated with other parallel concepts which do not strictly and wholly represent CSR. These include environmental protection, care for the employees, corporate philanthropy, business ethics, corporate spirituality, corporate governance, open and transparent management style. There is a lot of commonality among these concepts but these are not the same.

3) Several corporates still do not subscribe to the goal of CSR although most of them declare that they do.

4) Some corporates subscribe to the goal of CSR but the top management considers that it is a standalone function and is assigned to a small group to do what it can.

5) The function of CSR is relegated to the fast emerging and salutary objective of corporate philanthropy.

6) Some corporates equate it with undertaking, sponsoring and supporting socially beneficial programmes.

7) To several corporates, CSR is more a question of maintaining favourable – if not a grand – public image of the corporate, often of the corporate owner or leader, as the concept is in fashion and appeals to the public.

8) Some corporates stop with one or more aspects of CSR, such as care for the customers or a very positive and participative policy towards employees.

In a survey of 'the Most Admired 500 *Fortune* Companies', the three of the nine criteria included are those related to CSR. These are community development, people management and product/service quality. The other corporate management criteria include innovation, financial management, long-term investment, global competitiveness, management quality and use of assets.

Activity 3

Meet a top ranking executive of a Company following CSR practices and discuss the major constraints to the operationalization of Corporate Social Responsibility. How can these constraints be removed?

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16.4 BUSINESS ETHICS AND CORPORATE VALUES

Ethics, values and morals

What is business ethics? And how is it different from human values? Is it related to morality? What is the relationship among these three? And how can these be operationalised in governance? These are core posers often repeated, but not always uniformly answered.

The word 'ethics' is derived from the Greek word 'ethos', while the word 'morality' comes from the Latin 'mores'. Both merge into the concept of culture. Ethics is defined as that branch of philosophy, which is concerned with what is right or wrong, good or bad (Dastoor, 1995). The distinction drawn between morals and ethics is, perhaps, flawed. Also flawed is the belief that ethics is person-specific, although it is certainly context-specific and culture-specific (Jayashree, 2002). It is debatable whether value-based behaviour is not by the fact itself an ethical behaviour.

In an organization, the dominant culture is a reflection of the personality of the organization which encapsulates its mission and vision, its core values and its perceptions of the social reality (Jayashree and Sadri, 2003). Organizational culture provides the people working for it with a sense of identity, enhances their commitment to the organization's mission and clarifies or reinforces a particular standard of behaviour. Social adoption theory describes values as a type of social cognition that facilitates an individual's adaptation to the environment, social and emotional, implicit and explicit. Ethics defines the do's and don'ts of the conscience or the innate faculty of choice.

Values are associated with basic individual and societal beliefs about human conduct, whereas ethics is related to specific decisions. The latter is an activity-based concept. Accordingly, a set of beliefs that are self-consistent, even in the

eyes of the individual, would form a value system. As the values are continuing beliefs and ethics are activity-oriented, the basics of values do not change with changing situations. The values are translated into a set of policies so that these provide tools and knowledge to help making the ethically right decisions.

Contents and determinants of ethics

Gallaramam (1986) identified **four** types of situations that may lead to unethical behaviour: **first**, the activity is within reasonable, ethical and legal limits, but it is not "really" illegal or immoral; **second**, the activity is in the individual's or in the corporation's best interest and the individual could somehow be expected to undertake the activity; **third,** it is carried because it is believed that the unethical part will never be noticed; and **fourth,** when the activity helps the group or the organization, it will condone it and even protect the person who indulges in it. The ethical approach has no choice but to accept the first. The last two are unethical anyway.

When codes of conduct restrict innovative behaviour in the name of conformity to laws and regulations, there is a dilemma. If it violates law, it is unethical. Illegal acts howsoever justified on other grounds, become unethical. Law, right or wrong, does place a limit to human and organizational behaviour.

On the contrary, it is not true that whatever is acceptable to the peer group is ethical. The peer group's thinking cannot be taken as the law, it is only a guide. In fact, a behaviour which is contrary to peer thinking may sometimes be more ethical. It is why the plea that one acted because one was asked to do so is no valid defence in the eyes of law.

Self interest is a great motivator and is not necessarily inimical to ethical values when used to achieve success for the individual as well as the organization without impinging on the rights of others. Utilitarianism seen in terms of long run individual opportunity cost or of social cost may lead to the maximization of competitive advantage. Any product or service which sells by itself may not necessarily be an indicator of an ethical act. Production of nutritious food (against junk foods), however, is by its nature an ethical activity. Production of goods which are injurious to users' health is unethical activity. When it was discovered in America that some Chinese toys contained beads which contained lead and made children sick when they swallowed the beads, these had to be withdrawn.

Values and ethics are a primal function of corporate vision and strategies. Every strategy design and move must first of all address the question: does it conform to values and ethical conduct? To prevent a new entrant to enter the market may be a strategy but if it is achieved by creating monopolistic conditions, say, through barriers to technology by collusion, it is a value-shorn act. And if the strategy is sustained by price-cutting below cost to destroy competition, it is an immoral act. To supply more and high quality products may prevent a new entrant to come to the market, but it is a part of the game – a game of competition – a basic premise of business. It is neither immoral nor unethical.

Justice is a cardinal component of ethical behaviour. When people state that they are being cruel only to be kind, they are often unethical. That is an act of kindness camouflaged for being cruel – an act both immoral and unethical.

Corporate values

Business ethics is governed by corporate values. Values are the soul of business practices, which pervade corporate policies, practices and activities — expressed or not expressed. The values are generally not expressed. When not expressed distinctly, these take the abstract forms and yet constitute the principal driver of the corporate goals and practices.

Values are both positive and negative. These are generally understood to be only positive. Since business ethics and values are abstract, it is not easy to define ethics and values. The conducts which intend to help others are considered a good value; that which intends, directly or indirectly, to harm others or others' interests is branded as negative values.

Corporate values are the sum total of values followed by the organization consciously or unconsciously and those who constitute the corporate. Where the individual values are in conflict with corporate values, the latter have to prevail. Decision making in organizations is always impacted by its values, which get articulated by the organization.

The notion that social responsibility means foregoing profits is not consistent with the basic goals of any business. The purpose of business is to enrich society as well as those who are responsible for enriching others. If its purpose is to enrich others, it cannot, by the same coin, be its purpose to impoverish others. Sir Adrian Cadbury stated in his well-known report on corporate governance that 'the heart of the matter of governance is how to achieve a balance between the intrinsic power of companies and their proper accountability towards setting the ethical tone with regard to their monitoring and accountability roles.

Where values and governance are two separate dimensions in conflict with each other, both are dented. Where the strategies converge, both reinforce each other. When the bottom line or the shareholder value becomes the corporate goal, ethical values cannot be pursued with any vigour. Corporate values are best subserved when these become a corporate goal, not at the mercy of the shareholder value, which could be a camouflage for personal gain often only in short-term.

Corporate behaviour

Corporate behaviour has **seven** major dimensions:

a) interpersonal behaviour within the organization;

b) attitude of the management towards employees;

c) the attitudes of the employees towards the corporate entity and its stakeholders.

d) corporate behaviour in relation to corporate's direct stakeholders other than the employees, that is consumers, vendors, resource suppliers and shareholders or owners;

e) impact on the community and social ethos;

f) impact of the corporate activity on the physical and social environment.

g) response to the regulatory systems and the state.

All these are impacted by corporate and social values. While corporate values follow social values – these have generally been taken as constants.

Corporations are treated in many ways. Under the law, a corporate is a (legal) person. It can conduct business as if it were a natural person. Since corporations are not real persons, they are supposed not to have ethics of their own as such. This is not wholly true. While it is true that the people in the organization create the corporate ethics, corporates do develop and design their own ethics. They adopt the ethical values and in the process follow corporate ethics.

The people within the corporates thus operate from two ethical dimensions: the personal dimension, which involves a particular individual's ethical framework; and the organizational's dimension which involves ethical values, that inform policies of the corporation and the organization's operating culture and practices. These also influence the behaviour of the people within the corporation. It is thus a two-way traffic.

It is clear that in innumerable cases, the individual ethics in a corporate differs from the corporate ethics. As a corollary, different people in an organization follow different ethics. And although a corporate is identified by the values followed by the people working for the corporation, these do not essentially and wholly represent the corporate's ethics. Corporate ethics is that which the corporate decides and adopts in its policies and practices. As corporate ethics may differ from the ethics followed by its employees, standards of ethics adopted formally and in principle may be different from what it follows in practice. The divergence may be the result either of a lack of commitment by the management or of the variance of the values followed by the employees. In practice, it rests more on adoption of regulated and standard procedures and practices and transparency basically to the shareholders and generally to the community.

Activity 4

Imagine the case of a corporate unit and enumerate the corporate values which it follows and show how these differ from the individual values of employees.

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16.5 SUSTAINABLE GROWTH

The emerging recognition

Sustainable human development is socio-economic growth that not only generates economic expansion but also distributes its benefits equitably; that regenerates hospitable environment rather than destroying it; that empowers people rather than marginalising them. (James Gustare Spell, 1994). In other words, it is truly inclusive development in all its dimensions.

Until the 1970s, the companies considered environmental-related activities as a cost imposed by social demands or legislative compulsions. Social and legislative compliance is slowly but steadily yielding space to corporate conviction. The development of eco-friendly products and services has inspired many a corporate

vision statement. Environmental responsibility' has been found as a means to enhance the brand image. To be declared an ISO 14001 certified organization is considered a powerful promotional proposition. Civic groups, public leaders, potential employees and shareholders, and even the consumers evaluate companies in terms also of their social role and contributions, especially in the area of environment protection.

Environmental protection is increasingly becoming a critical concern globally. It is realized that the future of the plant is at stake due to the polluting activities of the economic activities. The damage is caused both directly and indirectly. Diverse kinds of pollution has been growing, which manifests itself in global warming, destruction of forests and natural habitats, degradation of air, wind and water, wasteful use of earth's resources, especially of the non-renewal resources.

In brief, environmental protection has many critical dimensions:

a) global warming and climate change, especially green house gas emissions.

b) pollution of the environment – air, water, noise;

c) preservation of scarce resources;

d) protection of heritage;

e) waste disposal and recycling;

f) safety.

As the world is becoming more conscious, it needs no elaborate discussion to comprehend the colossal dimension of the problem of environmental pollutions. It is now widely believed that the problem is assuming alarming proportions.

Developed countries are bound by Kyoto Protocol to cut greenhouse gas emissions between 2008 and 2012 by a collective average of at least 5% below their 1990 levels. An easy way to cut emission is by buying certified emission carbon credits, that are generated by clean projects, which reduce greenhouse gas emissions. A project becomes eligible to sell one credit if it reduces one tone of greenhouse gas emission.

The corporate initiatives

In a survey of 1,000 large companies, *Nikon Keizai Shimbun,* Japan's economic daily, discovered that nearly half (45%) of the respondents had begun addressing the CSR issue. Only a negligible less than 3% considered it as of no relevance. State action is supplementing micro-level corporate initiatives while there is a great deal of unfinished agenda.

Ricoh adopted a corporate policy charaterized by a 5-R code, 'refuse, return, reuse, reduce and recycle,' which seeks to minimize garbage: to the zero level. Workers wear uniforms made from recycled plastic soft-drink bottles. Brother's, the global office equipment producer has adopted socially responsible management philosophy which is represented by 4 Gs - 'global, group, green, and growth'.

United Nations Global Compact

The United Nations Global Compact (UNGC) is an initiative to encourage business worldwide to adopt sustainable and socially responsible policies and to

report on them. Under Compact, companies are brought together along with UN agencies, labour groups and civil society.

The Global Compact is not a regulatory institution. It is a network for communication among governments, companies and labour unions whose actions it seeks to influence and the civil society organizations, representing its stakeholders.

The Carbon Trust

A Carbon Trust has been established, which has acknowledged that nine leading companies pilot partners make up a new wave for the carbon emission protection. These include: Cadbury Schweppes; Coca Cola and Kimberly Clark. The products covered are paving stones, dairy milk bars, beverages punnet strawberries, web saver, toilet tissues, huggies, nappies, yogurt and lager and cider. The new pilot partners will use the draft standard to calculate the embodied carbon emissions and to work together with the Carbon Trust to explore the best ways to communicate their information to consumers.

In 2007 HSBC launched an international survey of public attitudes towards climate change. This survey covered 9,000 people in nine countries across four continents. The report showed that climate change may be a global issue but reactions to it vary strongly. John Williams, Head of the Group of Sustainable Development at HSBC said, that "The HSBC Climate Confidence Index" is an important barometer of international public attitudes towards climate change. Over time, it will enable us to better understand the actions people are prepared to undertake in reducing their carbon footprints and how we can work with government and the business community to find finance solutions to support them."

Global Reporting Initiative

The Global Reporting Initiative (GRI) refers to the global network of a large number of organizations worldwide that creates the Reporting Framework, use it in disclosure of their sustainability performance, demand its use by organizations as the basis for information disclosure on improving standards. It was formed by the US-based non-profits Coalition for Environment Responsibility Economies (CERES) and Tellus Institute, in the USA with the support of the United Nations Environment Programme (UNEP) in 1997.

The GRI, is operated by a Board of Directors, Stakeholders Council, Technical Advisory Committee, Organizational Stakeholders, and a Secretariat.

It released an "exposure draft" version of the Sustainability Reporting Guidelines in 1999 and, the first full version in 2000. The second version was released at the World Summit for Sustainable Development in Johannesburg. Later, that year, it became a permanent institution, with its Secretariat in Amsterdam, the Netherlands. Although the GRI is independent, it remains a collaborating organization of UNEP and works in cooperation with the United Nations Global Compact (UNGC).

GRI has designed the world's standard guidelines in sustainability reporting. Sustainability reporting is the action where an organization publicly communicates economic, environmental, and social performance. The GRI's mission is to make sustainability reporting by all organizations. The GRI Guidelines are the most

common framework used in the world for reporting. More than thousand organizations from 60 countries use the Guidelines to produce their sustainability reports. All sorts of organizations report using the GRI Guidelines, such as corporate business, public agencies, smaller enterprises, NGOs, industry groups and others.

The Guidelines are the most used and trusted because of the way they are created: through a multi-stakeholder consensus-seeking approach. This means that representatives from a broad cross-section of business, civil society, labour, accounting, investors, academics, governments and others from all around the world came together and achieved consensus on what the Guidelines should contain. Multiple participants ensure that diverse interest and needs are taken care of. The G3 is "Third Generation" of the GRI's Sustainability Reporting Guidelines. It was launched in October 2006 at an international conference.

Activity 5

What are Global Compact and Global Reporting Initiatives? How relevant are they to Corporate Social responsibility and Corporate Governance?

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16.6 CORPORATE GOVERNANCE AND CSR

The emergence of new business philosophy

For decades, growth of GDP was the parameter of economic development. Apprehensions expressed about the quality and quantification of the concept did not receive serious attention until the United Nations Development Programme (UNDP) produced a series of *Human Development Reports* (since 1990). In its 1992 version, it concluded: 'Economic growth does not uniformly improve people's life either within nations or between nations'. It has, in fact, generated disparities. A further element introduced by the International Monetary Fund (IMF) by injecting the purchasing power parity (PPP) factor into the conversion of GDP raised basic question marks against the traditional goals of socio-economic development.

Some large corporates have expanded their public reporting to triple bottom line. The three dimensions are represented by economic, social and environmental performance indices. Economic performance itself is conceived as a multi-

dimensional phenomenon. It covers human assets, job creation, outsourcing and investment in training and education. Social performance encompasses employee turnover, workforce diversity, labour and human rights and corporate contributions to social life. Environmental performance covers product and service impacts on air, water, land, biodiversity and public health.

There has been renewed interest in the corporate governance practices since 2001, because of the public exposure of the failure of some of the well-known corporates. In the early years of the current decade, the bankruptcies of Enron and WorldCom, AOL, Arthur Andersen, Parmalet, among others, led to increased shareholder and governmental interest in corporate governance. It eventually led to the quick enactment of the Sarbanes-Oxley Act of 2002.

Corporate governance became formalised with the Cadbury Report on the same subject commissioned by the London Stock Exchange. It was adopted by Indian corporates with the Securities Exchange Board of India (SEBI) appointing a committee under the chairmanship of Kumar Mangalam Birla, the Chairman of Aditya Birla group of enterprises. It was followed by the appointment of another committee by the Confederation of Indian Industry (CII). SEBI is now implementing a programme of corporate governance for companies listed on the stock exchanges. The corporates are required to present a report on corporate governance in the annual reports (containing balance sheets). The emphasis of corporate governance is basically on the appointment of independent directors, directors not connected with the controlling interests (dominant equity holders) and their role as contributors of professional thinking. While it adopts the principles of corporate governance, the CSR itself is not its integral part.

As it was pointed out, as a facet of good governance, the relatively new concept of corporate social responsibility (CSR) is being widely adopted by business entities worldwide. It has been designed with the initiative taken by the UN Secretary General Kofi Annan in the form of UN Global Compact. CSR is being reinforced by socially responsible investing (SRI).

In brief, it is a system of structuring, operating and controlling a company to achieve long-term strategic goals to address the expectations of all stakeholders and complying with the legal and regulatory requirements. It also covers meeting environmental and local community needs.

Over the years directors' accountability has expanded greatly beyond their traditional legal responsibility. It has widened both in content and application. In the 1990s, CEO dismissals of IBM, Kodak, Honeywell by their boards due to involvement of personal interests in the operations of their respective companies invoked principles of corporate governance. In 1997, the East Asian financial crisis highlighted the lack of corporate governance in these countries due both to the failure of the managements and the weaknesses of the related institutions in their economies.

16.7 CORPORATE PHILANTHROPY AND CSR

The objective of corporate philanthropy

Corporate philanthropy is as old as civilization. All societies have considered it as a human duty to help the needy and disadvantaged in the society. It is accepted

as a great virtue by all religions – Hinduism, Islam, Christianity, Judaism, Buddhism, Jainism, and Sikhism. The religious scriptures have prescribed norms for individual and organization for social philanthropy. Business or corporate philanthropy is a manifestation of basic human duty.

The theory of "give back to the society" has always been considered highly commendable. CSR, however, is a little different concept. While it does cover this facet, it is focused on the obligations to direct stakeholders.

From Corporate to Social Philanthropy

Businessmen and corporates world over have contributed richly to socially philanthropic causes. Indian businessmen and corporates are no exception. They have not only made substantial contributions for social causes, they have established outstanding socially-beneficial institutions, foundations and trusts devoted exclusively to single or multiple social causes, be it medicare and health services, education, maintenance of orphanages, care for the physically and mentally handicapped, rural development, financial assistance to the old, prevention of diseases.

As seen earlier, corporate philanthropy is neither an essential component of business ethics nor of corporate governance. It is an adjunct to these corporate parameters. It is also a little different from Corporate Social Responsibility.

Corporate philanthropy, however leads to CSR, while it is not an essential component of CSR. CSR is a must for any corporate, corporate philanthropy is optional and discretionary in volume and content. Nevertheless, many discourses on CSR focus on corporate philanthropy only and consider it as a substitute or even a synonym.

J.R.D. Tata, the ex-Chairman of Tata Iron and Steel Co. (TISCO), one of the largest steel companies globally, said "what comes from the people has to go back to the people many times over." In saying so, while he enunciated the basic philosophy both of CSR, and corporate philanthropy, he was going deeper into it. Be as it may, TISCO has contributed richly to both corporate philanthropy and CSR.

Ethics, Corporate Social Responsibility and Corporate Philanthropy

Ethics examines the moral standards followed by individual, society and corporation. Ethics also denotes the value system which varies from one society and organization to other. Ethics indicates the practiced value system and cannot be imposed like law. Multinational Corporations business spans from one host country to another. MNCs subsidiaries have to face different ethical climate which may create differences. There are international norms and conventions to judge these actions.

Unethical practices, like insider trading, corruption may be initiated at the higher level management. The lower and middle level management may be compelled to be silent witness. Unethical behavior can be influenced by external environment for example decline in profitability, increase in competition, rivalry among subsidiaries. Figure 16.1 explains how internal and external environment influences unethical behavior.

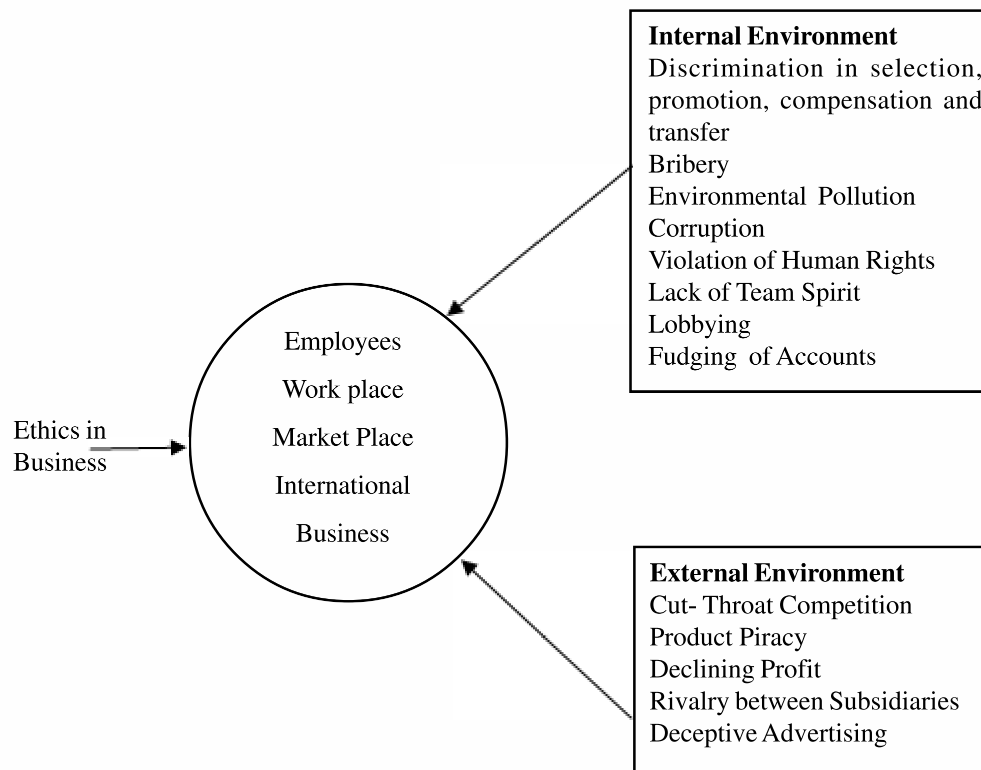

Figure 16.1: Ethics in Business

Internal environment can also lead to unethical practices for e.g. lack of team spirit, giving and accepting bribes, indulging in corrupt practices for short term gains; as a result, corporations in international business are forced to confront unethical situations. Unethical situation may arise in international business when host country Company is not sensitive to home country culture. Discrimination can exist due to wrong policies being adopted for selection, promotion, compensation and transfer of host country employees. It could lead to large scale lobbying and fudging of accounts. The external environment also influences international business. Unethical practices like product piracy takes place when CD- ROMs containing trade secrets are exchanged. Added to this is deceptive advertising. Here the motive of advertising is not to promote companies product but to highlight the weaknesses of competitor's products. Nike insured frequent auditing of sub contractors and subsidiaries in order to safe guard basic rights and dignity of employees. Nike also laid down minimum acceptable standards to avoid unethical practices. Environment pollution causes harm to the local community close to the factory and any violation of environmental norms creates hazards. The Union Carbide disaster of Bhopal is a glaring example of unethical environmental policy being pursued by an American company.

Corporate Social Responsibility (CSR) is also an important feature of responsible business in the international arena. CSR aims to protect the interest of internal and external stakeholders in international business. Internal stakeholders are employees, board of directors and stockholders. External stakeholders are customers, lenders, suppliers, governments, unions, local communities and general public.

According to the Triple Bottom Line Approach of corporate social responsibility both domestic and international firms have to meet the following three criteria:

1) Social Criteria - That is to safe guard the interest of host local community and society and to invest for a social cause like education, skill and enterprise development.

2) Economic Criteria – profit motive should not be the only goal of organizations. MNCs should be accountable to its stakeholders.

3) Environmental Criteria – In international business the use of natural resources should be according to the nature's carrying capacity. International organization should aim to pursue the 3 R's (Reduce, Reuse, and Recycle) products.

The MNC's like TATA's also extended their benevolent activities in international business and contribute towards corporate philanthropy. The philanthropic initiatives of TATA Group include student scholarships, support to academic institutions, social and community causes and upliftment of under-priviledged. Works for rejuvenation of places of historical importance, works to save life by facilitating organ donations. In Marathwada TATA's provides help to destitute women, marginal farmers and landless labourers.

The Bill and Melinda Gates Foundation has been serving the cause of downtrodden even in developing countries. The foundation donates heavily for eradication of polio and also serves the cause of HIV/ AIDS. It creates global awareness for poverty, hunger and disease.

Table 16.1: Efforts of Bill and Melinda Foundation

Global Health	Global Development
Discovery and Translational Sciences includes Vaccines to prevent devastating infections and illnesses	Agriculture Development
Enteric and Diarrheal Diseases	Emergency Response to Family Planning
HIV	Financial services for the poor
Malaria	Global Libraries
Neglected Infectious Diseases	Integrated Delivery, Maternal, Neonatal and Child Health Nutrition
Pneumonia	Polio
Tuberculosis	Vaccine Delivery
Water borne Diseases	Water, Sanitation and Hygiene

Source: http://www.gatesfoundation.org/How-We-Work retrieved on 19th Sept. 2014.

Activity 6

Recall and enumerate the important programmes of corporate philanthropy pursued by any three leading corporates showing if these also fall into the concept of CSR.

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16.8 SUMMARY

Ethics influences daily life of individuals and also encompasses the entire business and business activities. It is an essential component of Corporate Social Responsibility (CSR) and business ethics. It covers the fair business practices which include transparency, responsibility towards both internal and external stakeholders. In addition to CSR we have Corporate Governance which is related to the total management of organization and the obligations of the top management. Business Ethics propagates ethical business practices for good corporate governance and social responsibility towards stakeholders. In addition to CSR we have Corporate Governance which is related to the total management of organization and the obligations of the top management.

CSR has been explained through concepts like Triple Bottom line Approach. Triple Bottom line essentially deals with social, economic and environmental aspects. Other Criteria related to CSR is the United Nations Global Compact (UNGC) which is based on ten principle report and includes matters related to human rights, labour standards, corruption and environment. Another important initiative in CSR is Global Reporting Initiative (GRI) which refers to global network of a large number of organizations worldwide that creates the Reporting Framework, used in disclosure of their sustainability procedure on improving standards. Corporate Philanthrophy is also being widely practiced. Indian Companies like Tata Iron and Steel Company (TISCO) have widely contributed to corporate philanthrophy and CSR. Corporate Philanthrophy has given way to social philanthrophy. Businessmen and corporates world over have contributed richly to social philanthropic causes in medicare, health, education, prevention of diseases etc.

16.9 KEY WORDS

Corporate Governance (CG) : Means the management of a business unit committed to be fair and transparent and striving to achieve planned results.

Corporate Social Responsibility (CSR) : CSR is the dispensation of the management of an organization conforming to the operations of a business enterprise which enhances the value creation to all stakeholders.

Business ethics : Good business ethics is the pursuit of strategies and practices which reflect equity, fair play, conformance to commitment and honesty.

Corporate philanthropy : Acts or programmes which are outside the working of the organization but which help others in the society, especially the disadvantaged.

Corporate values : The principles governing the strategies, policies and practices of organizations.

Sustainable Development: Growth of organizations or social and economic activities, at micro unit or macro level, which tends to be self-reliant and self-sustaining, not inimical to environment.

Triple bottom line : The final indicators of performance of a corporate representing (i) revenues or sales turnover, (ii) net profit after meeting all obligations and taxes, and (iii) conformance to principles of environmental protection.

Stakeholders' interest : Value creation in terms of returns or benefits to any group of people involved in a business or economic activity, that is, the stakeholders including shareholders (investors), workers, consumers, vendors and service providers, resource suppliers (like lenders), the state and the community.

16.10 SELF-ASSESSMENT QUESTIONS

1) Enumerate the principal elements of Corporate Social Responsibility (CSR).
2) What are the other terms which often take the place of CSR or are related to it?
3) How is CSR different from corporate philanthropy? Give example of the two to establish the distinction.
4) What is the role of environmental protection in corporate management?
5) What is meant by business ethics? What is the relationship between CSR and business ethics? Is it consistent with maximization of shareholder value?
6) What do you mean by Triple Bottom line? What is its significance to business?
7) What are the costs and profits of CSR?
8) What role does the Global Compact (GC) play in the acceptance of CSR?
9) How important are social and corporate values to CSR? List five leading corporates and five social values?
10) Define corporate governance. How is it different from CSR?
11) What is the role of corporate philanthropy in corporate governance?
12) Can you give two cases of corporates, Indian or foreign, which follow commendable programmes of social philanthropy. How far these programmes constitute corporate social responsibility?
13) Name the principal stakeholders of corporates. How are their interests best addressed under CSR?
14) Consider you are the CEO (chief executive officer) of a large corporation with a high turnover. Outline a programme for the corporate, which satisfies the demands of CSR.

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UNIT 17 EMERGING MARKET ECONOMIES

Objectives

After studying this unit, you should be able to:

- explain the concept of Emerging Market Economies (EMEs) and their characteristics;
- analyse the state of EMEs, particularly BRICS, African and South Asian Markets, in terms of economic, social, political and other factors; and
- examine the impact of the enlargement of European Union on India.

Structure

17.1 Introduction

17.2 Emerging Economies: Characteristics

17.3 The Concept of BRICS

17.4 The African Markets

17.5 The South Asian Markets

17.6 The Impact of Enlargement of European Union (EU)

17.7 Summary

17.8 Key Words

17.9 Self-Assessment Questions

17.10 References

17.1 INTRODUCTION

An emerging economy is the one which is experiencing rapid growth and industrialization in its business activity e.g. China, India, Mexico, Russia and Brazil (http:// en.wikipedia.org/wiki/Emerging-economies). Due to their inclusion in global economy they are no longer considered third world countries. The investors look forward to investing in such economies. Julien Vercueil has proposed a definition of "emerging economies" instead of "emerging markets" based on following characteristics:

1) Intermediate income – such economies have purchasing power parity, per capita income ranging between 10% and 75% of the average per capita income of European Union.

2) Catching up with growth – such economies have demonstrated high economic growth during the last decade. This has resulted in narrowing down the income gap with developed countries.

3) Changes in institutional setup and opening up of the economy – have facilitated integration of such economies with the world economy. Such economies have been greatly influenced by the process of globalization.

However, the common term in international business parlance is "Emerging Market Economies." Emerging Market Economies (EME's) is the term coined by Antoine W. Van Agtmael of the International Finance Corporation of World

Bank. An emerging market economy is defined as an economy with low to middle per capita income (www. investopedia.com). Emerging market economies have almost 80% of the world's population and constitute 20% of the world's economies. This classification is relatively loose as it includes economic giants like China on one hand and countries like Tunisia on the other. Emerging market economies are hence those economies that have pursued development and reform programmes and have opened up their market for foreign competition. These economies are in their transitional phase as they are moving from a closed to an open market economy. Such economies follow an economic reform programme which focuses on accountability, transparency and equity. EME's strived for a relatively less volatile exchange rate, as stability in exchange rate builds confidence in market, attracts foreign investment and also checks capital flight. Stability of key economic parameters would facilitate in attracting more resources from donor countries and world bodies like International Monetary Fund and World Bank. In such economies foreign investment would flow both in the form of Direct Investment and Portfolio Investment. This will have favourable impact on country's stock market and long term investment in key sectors like energy, infrastructure and ICT. Foreign investors are offered outlet for expansion in the form of land, electricity and infrastructure by Government of EME's. They also get access to resources, market and cheap labour. The destination country benefits as setting up of such foreign enterprises creates opportunities for employment generation, technology sharing, developing managerial skills etc. This also helps in increasing overall production level, gross national product and narrowing the gap between developed and developing world. Emerging Economies are not free from risk since they are in the transition phase and not stable. The risk of not meeting the established standards and expectations could spark unrest like civil war, change in government priorities, nationalization and crash of stock market. Further, risk could be in the form of political unrest for example, the 1997 Asian Crisis.

Today, globalization and its impact through the technological development, economic growth, and trade liberalization have transformed the way firms do business and redefined some existing rules. MNEs today cannot be satisfied and could seek solace in commanding market positions in the developed world. The emerging markets represent bigger opportunities as compared to the developed markets. The size of the market, as a supply hub for a wide range of goods and services and very often providing lower cost of outsourcing has made the emerging economies today a much discussed issue. Take for instance the growth patterns of both India and China in the last five years, which are on different levels. China's competence and focus as a low-cost manufacturing hub and India's focus as a low-cost services hub present two sides of the continuum. It is now said that China is the factory of the world and India, the office. Emerging-market multinationals such as Haier and Huawei of China, semiconductor manufacturing and Acer of Taiwan, and Embraer of Brazil are emblematic of this new breed of competition.

The growth of the big emerging markets (usually defined as Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Korea and Turkey) are today the most preferred destinations for developed nations or for MNEs to set up shops. Though the growth rates in the South Asian market, for instance, have been lesser than the East Asian markets, yet all the projections and statistics have shown them as positive outcomes. The South Asian countries have grown at

rates ranging from 3.37 to 4.81 per cent over the past twenty-five years. They have also shown significant improvement in life expectancy and literacy rates, in which Sri Lanka has reached the levels comparable to industrially advanced countries.

A fundamental premise here is that the obstacles to success in emerging markets are greater than the typical international business dimensions of cultural differences and geographical proximity. The barriers that firms encounter in emerging markets are fundamental and often call for radically new thoughts on defining and implementing corporate strategy.

17.2 EMERGING ECONOMIES: CHARACTERISTICS

A significant number of countries in the developing world are often characterized as emerging markets. However, those are quite different from least developed countries (LDCs). Although the two groups may share endemic weaknesses, emerging markets typically reflect significant propensity for growth while LDCs do not. In reviewing the broad domain of emerging markets, it is helpful to examine some of the physical and institutional characteristics of immediate relevance to the strategy maker. The defining features of an emerging market are the development status of its physical infrastructure (i.e., communications, transportation, electricity, ports, etc.), institutional infrastructure, socio-political fabric, and economic performance record and potential. Table 17.1 provides a synopsis of the key differences between these characteristics while comparing emerging markets with developed country settings.

Table 17.1: Characteristic Differences in Physical Infrastructure between Developed and Emerging Markets

Characteristics	Communications	Transportation	Energy
Developed Country	Relatively well developed. Inflow of funds in this sector, system failure minimum, reliable technology which is frequently updated. There is private sector involvement.	Developed country is well connected with developed road, railways, air traffic systems, ports and waterways.	Generation, transmission and distribution of energy through a power grid. Power shortages are very rare. Private sector allowed participating in this sector.
Emerging Markets	Mostly government owned with minimum private participation. Outdated Technology and frequent systems failures	Firms are mostly government owned. Transport network inadequate between key cities.	Power supply inadequate adversely affecting production of manufacturing sector. Private sector participation negligible.

Source: Global Strategy by Andrew Inkpen and Kannan Ramaswamy, Oxford, Year, 2006, pg 154.

***Physical Infrastructure*:** There is significant variation in infrastructure quality in terms of poor roadways, telecommunication, transport and energy facilities.

The level of private sector involvement is limited. Among emerging economies China has spent huge amount on improving its physical infrastructure.

Institutional Infrastructure**:** For smooth functioning of business activities strong institutional infrastructure like legal system, banking system and capital markets is required.

Nature of markets**:**

- High growth expectations
- Investments characterized by a high level of risk and possibility of a high return
- Possess potential to share in early stages of economic growth
- Economic and political conditions are volatile e.g. China and Kenya
- Securities market not well established due to absence of long history of substantial foreign investment
- Transitional character (with changes taking place in social, political, economic and demographic dimensions.)
- High degree of volatility
- Dynamic nature of emerging markets i.e. they move from current economic condition to greater institutional and policy maturity.

Capital Markets*:* In a country like India the capital markets have evolved over the years. The Financial Sector reforms in 1991 and 1997 initiated by the Narsimham Committee and then the recent Raghuram Rajan report all are attempts to improve the financial market scenario in India. The Rakesh Mohan Committee report on infrastructure finance is also another step toward the reforms. In most emerging economies, there is often a dual standard with respect to regulatory compliance; that is, most often the subsidiaries of foreign firms are held at higher standards. For example, foreign banks operating in India have historically been subject to much more intensive reporting requirements than have the local banks.

Subsidies*:* Government in emerging markets supports domestic business through subsidies. It exercises regulatory control over MNC's as a protection against competition. In India, Maruti Suzuki is one such story, where the company started off as a 50:50 joint venture of Maruti (Govt. of India) and Suzuki Motor Corporation. But, now the government has off-loaded its entire equity to Suzuki and the company has been able to take up the challenge gradually. The fertilizer industry in India is another example where the subsidy forms an important part of the sector. Subsidies are integral to the sector as a substantial part of the sector relies on imports.

Legal Infrastructure: There is very limited confidence in legal infrastructure of emerging economies as it offers protection in case of intellectual property rights. This curtails investment by MNE's in leading sectors like pharmaceuticals, high technology and bio- sciences. In India, for instance, the judicial process is a long drawn procedure and takes ages to settle dispute. Also aspects of law related to IPR in India are not as evolved as in the West; hence several companies may feel wary of approaching the market.

Political instability and corruption: Emerging economies are characterized by political instability, red tapism, bureaucratic and political hurdles. In emerging markets, complying with archaic regulations can be a major challenge. In Mumbai (India) it takes 30 different clearances and approvals to start a small corner store. It takes 152 days to start a business in Brazil and 151 days in Indonesia, compared to 3 days in Canada and 2 days in Australia. (Source: Global Strategy, Andrew Inkpen and Kannan Ramaswamy, Oxford, 2006).

17.3 THE CONCEPT OF BRICS

The concept of BRIC (Brazil, Russia, India, and China) economic block was introduced in 2001, by Goldman Sachs, which is a multinational investment bank. This view was strengthened by global crisis of 2008. In 2011 South Africa was incorporated as its fifth member changing the acronym of economic block from BRIC to BRICS. The economic success of BRICS has focused development from struggling developing countries to emerging high growth markets. They have initiated unprecedented change in the global economy. They contributed in global boom before 2008. These emerging economies compete among themselves for market and investment. They offer immense opportunities to businesses and investors. The following factors have lead to emergence of this economic block:

– The monopoly of developed countries which controlled multilateral lending institutions like International Monetary Fund and World Bank. The creation of BRICS offered an alternative to emerging market economies.

– Increasing private consumption – there is an increasing trend of households spending on essential goods like food and more on comforts and luxuries like automobiles, household appliances some of which is also termed as white goods.

– A spurt in urbanization – There is a trend of people moving towards urban areas. More cities with basic amenities have grown.

– Infrastructural growth - Urbanization has presented challenges for infrastructural development. This encouraged construction of roads, railways telecommunication, housing, aviation, etc. The EMEs demonstrated increase in infrastructural growth. India in its 11th Plan 2008-12 spent $ 500 billion on infrastructural projects. China spent 12% of its GDP on infrastructure.

Brazil –A notable feature of this economy is that large section of its population has moved into middle or upper class since 2003. Brazil has excessive dependence on its natural resources; as a result, manufacturing has suffered. The country possesses enormous commodity wealth and there is lack of competitiveness in certain sectors. The economy witnesses' frequent volatility as it is not able to attract enough foreign investment. Lower interest rates and improved business environment would lead to favorable long term growth.

Russia - Russia has done little to develop its manufacturing sector, as a result it faces problem of underinvestment. The growth is vulnerable to fluctuations in commodity prices. In spite of huge investments on research and development, levels of innovation and entrepreneurship are low. Inflation rate is high due to structural bottlenecks. The figure for annual growth averaged to 8% in 2003 – 07 but fell to 2% in 2013.

India – India's growth declined from 9.6% in 2010, to 6.9% in 2011 and around 5% in 2012. The decline in growth was due to shrinking of world trade and domestic uncertainties. Weaker domestic demand and the depreciation of exchange rate reduced imports and lowered the current account deficit. High inflation and the widening of the fiscal deficit limit the room for expansionary monetary and fiscal policies. Positive effects of recent structural policies, improved external conditions and higher agricultural production could lead to higher growth in future.

China- has witnessed slowdown in growth from 10.4% in 2010, 9.3% in 2011 to below 8% in 2012. This decline in growth rate was mainly due to measures adopted by Government to reduce inflationary pressures which led to fall in exports and domestic demand. But in spite of these turmoil Chinese economy remained robust. However in March 2013 government set a lower growth target at 7.5%. The demand pattern is likely to shift to consumption and services rather than commodity- intensive production. There is rise in demand for wage hike; this would compel Chinese firms to divert investment in manufacturing abroad.

South Africa – is a middle income**,** emerging market with abundant supply of natural resources. It has a developed financial market and stock exchange. Development has also taken place in the infrastructural sector like communications, energy and transport relatively. However, South Africa still faces problem of shortage of electricity, public transportation system, poverty, unemployment and lack of empowerment of disadvantaged groups. The economic policy focuses on controlling inflation and achieving budget surplus. The economy has also suffered from the global crisis; as a result dependence on state owned enterprises for delivering essential services and creating employment opportunities has increased.

The BRICS journey has reached the cross roads. Brazil, Russia, India and China and South Africa will all provide markets large enough which investors cannot ignore. The policy makers in these countries need to focus on transforming internally in order to gain support from the outside world.

Activity 1

Visit BRICS website, identify the BRICS summit which took place at Fortaleza, Brazil. What were the agreements signed during this summit? What impact this BRICS summit will create on member countries and developed world?

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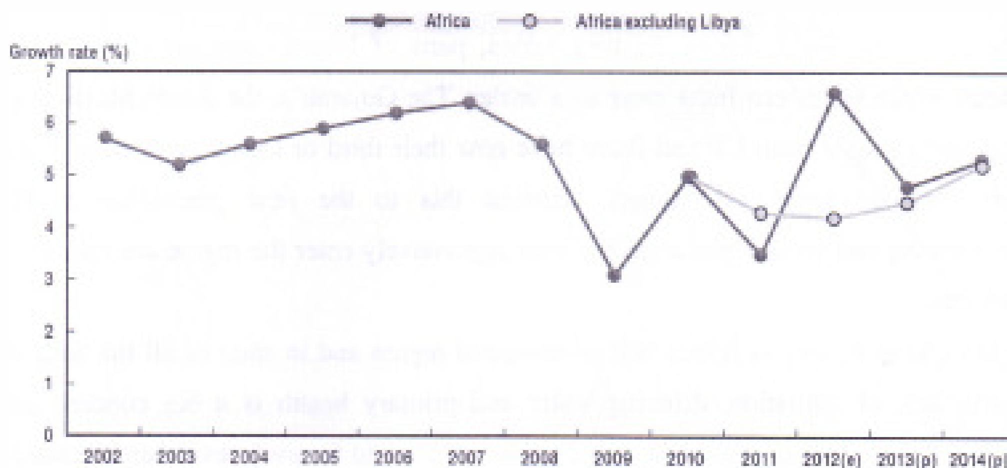
17.4 THE AFRICAN MARKETS

The Africa story is diverse and heterogeneous within itself, but to the world, Africa is one. A large continent with diversified and multi-cultural demographic

population, trying to emerge from its colonial past. Even the past refuses to completely erase, what is of interest is that the individual nations have somehow felt it best to preserve the past. In some countries like South Africa, the apartheid regime existed for such a long time that the commercial and the economic interests have still not shifted to the local regime. In this context, it will be important to assess what Africa is all about, what is its vision and what prospects does it hold for rest of the world. The aggressive foray into the region by China and India's long standing presence has raised more eyebrows. China's hunger for oil and its never satiated domestic industry requirement resulted in its explorations across the globe. Africa therefore was one of the 'natural' choices. Today, the Chinese presence in the region is projected more as a partner and less as a plunderer of the resources. This is in contrast to India which has been always present in Africa. The Eastern Africa's commercial success story has always been a moment of glory, but India has always been present across the length and breadth of the continent. South Africa, Eastern Africa, parts of Nigeria and some pockets of northern Africa have seen India more as a settler. The Gujarati's, the Kutch Muslims or the up-north people from UP and Bihar have now their third or fourth generation in the region (branded today as Asians). They are in sharp contrast to the new generation of IT, manufacturing and service sector people who aggressively enter the region are called the expatriates.

The key question, why is Africa an untapped region and in spite of all the odds of poverty, lack of sanitation, drinking water and primary health is a big concern and continues to be a debate in several round tables. The world focused never before kind of attention on Africa in 2005, which was dubbed the "Year of Africa". Unprecedented economic growth in the continent suggests that the concerted efforts of the international community to boost Africa's development are paying off. Initiatives such as the African Peer Review Mechanism and the Millennium Challenge Account have yielded some initial positive results. The general investment climate in Africa has improved, as indicated by the rapid increase in trade with and investment from China and India. Significant development challenges, however, still remain. Africa needs a development decade — a year is not enough (IMF Report, 2007).

African economy witnessed accelerated economic growth. The main factors behind this growth performance were the strong external demand for oil and non-oil minerals, increased investment in the oil and other mineral sectors, and good growing conditions for agriculture in most countries. Continued sound macro-economic policies in most of the countries in the continent have also increased business confidence, leading to a pick up in private investment in general. According to the data available in Africa Economic Outlook, 2014 African economies showed remarkable recovery during the global recession of 2009. Eventhough the African economy recovered, they were affected by the flagging world economy. Due to this the average GDP growth of Africa has remained lower than before global recession. In 2013 it was 3.9% and the figure excludes the effect of the fall in Libya's oil production. The growth in Africa's economy is projected to accelerate to 5.7% in 2015. If Libya is excluded then it is projected to 5.2% in 2015 (Figure 17.1). The projections are based on the assumptions that the world economy will become stronger and Africa will have more political and social stability.



Note: e: estimates; p: projections
Source: Authors' calculations
StatLink www.http://dx.doi.org/10.1787/10.1787/888932806904

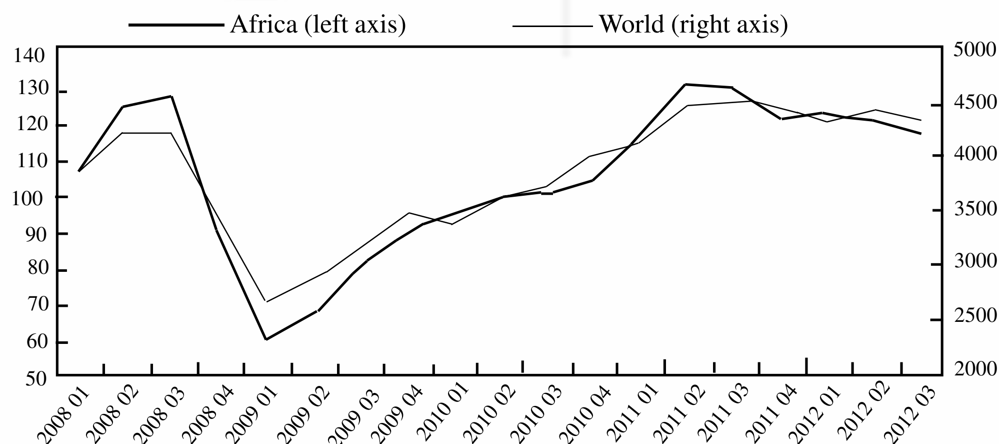
Figure 17.1: Africa's Economic Growth

Source : African Economic Outlook, pg 18 © AfDB, OECD, UNDP, ECA 2014.

The weakness of the international environment also constrained African economies although short-term prospects appear favourable. The assessment of the economic situation by African participants in an international poll has deteriorated during 2011-12.

The main reason for the deterioration of economic conditions during 2011 and 2012 was that export markets of African countries have weakened in advanced countries and – to a lesser extent – also in emerging countries. While Africa's trade with emerging countries has gained importance with increased share in total Africa's exports, advanced countries continue to be the most important export market. In 2011, one-third of Africa's merchandise exports went to the European Union (down from 37% in 2006) and more than 11% to the United States against 16% in 2006 and exports to India rose to 65% in 2011 from around 4.5% in 2006. The exposure to developments in the various regions of the world is, however, quite different across the continent.

Global growth and world trade are expected to improve slowly during the projection period with world output growth rising to 4% in 2015 (from around 3% in 2013). World trade volume growth is estimated to grow to around 6% in 2015. This projection will surely benefit the exporters of Africa (Figure 17.2).



Source: IMF Direction of Trade Statistics (DOTS)
StatLink www.http://dx.doi.org/10.1787/10.1787/888932807037

Figure 17.2 : Development of African and World Exports of Goods (USD billion)
Source : African Economic Outlook, pg 25 AfDB, OECD, UNDP, ECA 2014.

As a whole, the scenario looks optimistic due to favourable economic indicators as well as increased political stability (Figure 17.2). The issue of political stability in particular has long been a concern for most countries. Exporters and companies were increasingly wary of the instability issue, but, slowly and steadily, most African nations are trying to focus on internal stability.

Aid for Sustenance

There are two important issues that need to be discussed in this context. As an emerging market, Africa also relies heavily on aid for sustenance. It received 35 billion dollars in 2005, about 42 per cent of total aid – this is up from 36 per cent in 1999. Nigeria was the top recipient (16 per cent). Much of the increase in aid is due to debt relief (80 per cent in Nigeria, 50 per cent in Zambia, 40 per cent in Ghana, 30 per cent in Democratic Republic of the Congo). The principal challenge is to ensure that these resources are channeled to expenditures on health, education and other priority sectors. A second challenge is to maintain a sustainable level of debt servicing while seeking additional finance to make progress towards the MDGs (millennium development goals). In tandem with efforts to increase aid volumes, steps have been taken to improve the quality of aid (recipient "ownership", alignment, harmonization, simplification…). The principles of the **Paris declaration** have been put at the heart of the Aid for Trade agenda aimed at helping developing countries benefit from WTO agreements and expand their trade.

"Aid for Trade" refers to aid that is aimed at helping developing countries to benefit from trade liberalization at multilateral, regional and unilateral levels. Its scope has been broadened by adding to the traditional categories of trade-related technical assistance (trade policy and regulations and trade development) four new categories:

1) trade-related infrastructure,
2) building productive capacity,
3) trade-related adjustment and
4) other trade-related needs.

Aid for Trade (AFT) accounts for about 55% of total Official Development Assistance (ODA) to Africa. Aid for Trade volumes could be further expanded. Effective implementation of such aid requires stronger actions by African governments in identifying priorities, better co-ordination among donors and, still, better access to rich countries' markets.

The other important aspect is the issue of Millennium Development Goal and Africa's failure to achieve some of the targets. The Millennium Development Goals or MDGs are the internationally agreed upon objectives to reduce poverty by half by 2015. In Africa, progress toward the various MDGs has been slow.

In this perspective, how does Africa look at itself in the global market, particularly as the global business dynamics shifts? With Asia as the new focal point and Africa's traditional lineage on Europe as a trading destination will come under scanner. Already, India and China are exploring the markets more prodigiously. Trade with Asia, in particular China, has improved dramatically although the

EU and the US still accounts for 2.5 times the export shares of Asia. Nevertheless the export of commodities has not been accompanied by export diversification. Oil and metals are still the main export items. Africa has 10 per cent of world oil reserves, 8 per cent of gas reserves, 60 per cent of world diamonds, 40 per cent of the world's phosphates but accounts for less than 2 per cent of world trade. Asia and in particular china's importance as Africa's trading partner is increasing but there are risks. The strong impact of China and India on international commodities demand and prices might further exacerbate African countries dependence on export of raw materials and further raise the bar for competing in labour intensive industries.

So far the investments in Africa have been only in the oil sector and in South Africa. This has to move beyond the domain and look at sectors and countries which have the potential. It is a vulnerable continent, and with only 1.5% of the world trade it will be difficult unless they look at their internal strengths and push forth their agenda which has till now been externally driven. Two things are important —

- ***Increase capacity for trade and investment:*** maintain macroeconomic stability, improving business environment, promote diversification.
- ***Use external resources more effectively:***
  - Capitalize on oil and minerals windfall gains to invest in health, education and access to basic services.
  - Use ODA (official development assistance) as a catalyst: aid for trade is an instrument for enhancing Africa's integration with the global economy.

Strategic Leap in African Trade

In 2012 Europe remained Africa's Major trading partner, with two-way trade valued at USD 240 bn, which is 38.2% of Africa's total trade. This was followed by Asia at USD 160 bn i.e. 25.3%; North America at USD 74 bn amounting to 11.7% of African trade. The figures clearly depict the value of Africa – EU trade partnership. China leads the way in emerging economies by increasing its share of African exports from 3.2% in 2000 to 13% in 2011. Two way Africa – China trade was worth USD 198.5 bn in 2012 (www.african economic outlook.org.). This shows that despite setbacks, African economy is growing.

17.5 THE SOUTH ASIAN MARKETS

The growth in the South Asian markets have been different for different markets and they have had different successes, experiences, political ideologies, resource bases and often policies also. However, they share a common colonial experience, similarities in administrative and legal set-up and commonalities in their ethnic and cultural backgrounds. Bangladesh, India, Nepal, Pakistan and Sri Lanka are different but they are held together by a common bond. On the other hand when we look at China, its growth model, ethnic and cultural issues, history and heritage have been completely different from other South Asian markets. Even when looking at markets like Thailand, Indonesia, Philippines, Singapore, Malaysia, Vietnam, Laos and Cambodia, there are common strands in them. Their growth charts, particularly of the first five countries, have distinct similarity and all of

them went through the South Asian crisis of the mid 90s. In this unit, we have discussed China more for assessment as a growth mode.

Activity 2

Ease of Doing Business is a report published by World Bank Group. Based on this report, list the overall ranking of any five emerging market economies. Also identify the key indicators and try to site an example of any high income economy which can be regarded as a benchmark.

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17.6 THE IMPACT OF ENLARGEMENT OF EUROPEAN UNION (EU)

The enlargement of EU and its implications for India is an important issue. After China and India's global competitiveness rankings, there are three east European countries that are ranked. In fact, the total FDI to Czech Republic with a population of 10 million exceeds that of India. The major share of these FDIs comes from the old European economies such as Germany and France. Another important point about the enlargement relates to the political, institutional and economic restructuring after the enlargement process begins. The enlargement of the eurozone is an ongoing process within the EU (en.wikipedia.org.2015). All member states except Denmark and United Kingdom are obliged to adopt euro as their sole currency. This is done once they meet the criteria laid down by the EU. As of now there are 19 EU member states. Seven remaining states: Romania, Bulgaria, Poland, Czech Republic, Hungary, Sweden and Croatia are on the enlargement agenda. Overall it is termed as a 28 nation block.

Impact of Enlargement of EU on India

According to the article published in moneycontrol.com (Sinha & Natraj, 2015) EU-India free trade agreement would set a predictable framework resulting in slash of duties to over 90% of the bilateral trade. The negotiations between India and European Union started in 2007. India is EU's 9th most trading partner, whereas EU's is India's largest trading partner. Free Trade Agreement (FTA) would be an important step in enhancing the EU- India relationship. The economic benefits of the FTA are majorly dependent on the extent to which the investment is allowed to play its role.

As said earlier EU is India's largest trading partner with around 20% of Indian trade. According to information available on Wikipedia, the trade between India and EU was $57.25bn between April 2014 to October 2014 and stood at $ 101.5bn for the fiscal period of 2015. France, Germany and UK collectively comprise of the major part of EU- India trade. Denmark, Finland and Netherlands follow the lines.

Another important aspect that needs to be discussed is about the **accession countries** (ACs) and their trade relationship. Accession countries are new countries that have merged in the EU in May 2004. There are some deficiencies in the data on trade between the ACs and India, because much of the trade is transshipped through the EU. As a result Indian products are often counted as EU products when imported into the ACs, resulting in some understatement of India-ACs trade. Customs data from the ACs indicates that trade with India is greater than reported in the Europe wide trade data bases.

One of the impacts of the enlargement will be the common export-import basket that the AC countries and India share. The ACs already have a long standing trade relation with the EU and the majority of the FDI from the old block of EU goes to these AC countries. Agriculture and Textiles & Clothing are two important categories where the AC's have strong footing along with India. Also with free movement of goods within Europe as per **rules of origin,** the duty and tariff aspect is also currently waived off for the AC countries. India, on the other hand has a long standing relationship with the EU in terms of trade and India-AC trade. This will be a cause of concern in the long run.

The euro area fell into recession in 2012 with GDP declining by 0.4%. The preceding two-year recovery period was short-lived and tepid (with GDP rising by 1.9% in 2010 and 1.5% in 2011 positive growth of 1% - 1.5% is only expected in 2014). The euro area continues to struggle with weak confidence due to the ongoing sovereign debt and banking crisis in several countries. This and fiscal restraint are reducing domestic demand while weak global trade depresses export demand. Within the euro area Greece suffers the deepest and longest recession. By the end of 2013 its GDP will be more than 25% below the level in 2007. The crisis in Greece has also affected the banking system in Cyprus, pushing the country to the brink of bankruptcy. Among the countries which have been most seriously hit by the debt crisis Italy, Spain and Portugal were also in recession in 2012.Since October 2012, acute crisis risks in the euro area have diminished. Decisive policy actions at the European level – including Outright Monetary Transactions (OMTs) the completion of the European Stability Mechanism have increased confidence in the viability of the Economic and Monetary Union (EMU). Emerging Europe experienced a sharp growth slowdown in 2012, reflecting spillovers from the euro area crisis and domestic policy tightening in the largest economies in response to new capacity constraints. Restrictive domestic policy was followed in Turkey and in Poland to address above target inflation and a sizable fiscal deficit.

Activity 3

After doing the necessary library work, list the countries that are regarded as Emerging Economies and rank them in terms of their GDP (on the basis of the latest data available). Analyze each country's contribution to world trade (import and export of goods and services). What is particularly notable or striking about each of such countries?

After you have done your task, discuss it with your counselor in the counseling session and share your work with co-students.

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17.7 SUMMARY

Emerging Market Economies represent a group of countries which, though characterized by low-to-middle per capita income, have, nevertheless, embarked upon the path of fast economic growth through the process of economic reforms, liberalization, including opening up of their markets. Abuzz with industrial and other economic activities, they have thus emerged on the global scene by attracting the attention of the investors, producers and service providers, and those who have technology and intellectual (IPRs) resources all over the world.

Emerging Market Economies, more or less, exhibit certain common characteristics. As compared to developed economies, the state of development of their physical infrastructure (communications, transportation (roads, etc), electricity, ports, etc), institutional infrastructure (capital markets, banking, insurance and legal systems, too much emphasis on subsidies with consequent economic distortions, etc), and socio-political fabric (political interference in business matters and bureaucratic red tape, bribery, money laundering, and corruption in general) is generally weak and not very reliable, as it leaves much to be desired.

Africa, rich in oil and mineral resources and with its several emerging market economies, is an untapped region holds great potential for rest of the world. The overall economic growth of the continent, including the sub-Saharan region, has been quite impressive. The continued pursuit of well laid out macro-economic policies by most of the countries in the continent has enhanced business confidence which has led to greater foreign investment in general, though fears arising from political instability still abound. India and China have sizable business presence in the African markets. Macro-economic and fiscal policies have still not been able to give the required fillip to the region and the millennium development goals of some of the countries have not reached even half way mark. To do business in an African country, one needs a clear understanding of the internal situation in that country. A notable feature of Africa is that it heavily depends on foreign aid for its sustenance. As such, it has to manage its debt servicing prudently and efficiently in order to survive and grow in the long run.

The South Asian markets present a mixed picture. Different markets have a record of different kind of successes and experiences due to their different political ideologies, resources bases, etc. On the one hand there are countries like India, Bangladesh, Pakistan, Nepal and Sri Lanka which are held together by a common bond (because of earlier colonial rule), there are other countries, on the other hand, like Thailand, Indonesia, Philippines, Singapore, Malaysia, Vietnam, etc. where a common strand runs through. China has its own growth model, with its history and heritage. The story of China's fast economic growth, with its highly impressive growth rate, has attracted world-wide attention.

As the European Union has recently enlarged its membership and which is to be further enlarged in the time to come, it has some implications in terms of the impact on imports from and exports to the newly acceding countries (called accession countries – ACs) for India and other countries which need to be carefully assessed for whatever opportunities they provide.

17.8 KEY WORDS

Emerging Market Economy : A country which, though presently with low-to-middle per capita income, is on the path of fast economic growth spurred by economic reforms, including liberalization measures, etc.

Institutional Infrastructure : Encompasses banking, insurance, capital markets and legal system, etc. all of which have significant bearing on the ability of the business firms to raise money for various activities, conduct business and enforce contracts.

Physical Infrastructure : Basic/fundamental infrastructure required for economic growth like communications, transportation (road, rail, sea and air), energy, airports, sea ports, etc, without which economic growth would be/likely to be hindered.

Millennium Development Goals : Internationally agreed upon goals to reduce poverty by half by 2015. In several countries of the world, particularly in Africa, the progress toward the millennium goals has been slow (or below expectations).

Accession Countries : Represent new countries of Europe joining the European Union.

Paris Declaration : An international agreement (endorsed on March 2, 2005) by countries and organizations which have committed to continue efforts to harmonize, align and manage aid for results with a set of monitorable actions and indicators.

Subsidies : Explicit or tacit support provided by a government to local firms through administered prices, cash support, purchase support, tax cuts or exemptions, tariff and non-tariff regulations, etc. Many emerging economies do have a system of such supports.

17.9 SELF-ASSESSMENT QUESTIONS

1) What is an Emerging Market Economy? Bring out the characteristics of emerging market economies.

2) Make an assessment of the African market in terms of macro-economic indicators and discuss its potential for other countries. What are its key

features? How is India placed in this part of the emerging world market? Discuss in detail.

3) Discuss some of the problems that persist in the African market and how they could impact on firms doing business with African countries?

4) Discuss the potential for business of South Asian markets. Give reasons in support of your answer.

5) Analyze BRICS in terms of socio-economic and other indicators. How would you classify them?

6) Compare and contrast the economic growth in China and India and bring out the differences in their growth patterns. To what factors would you attribute such differences?

7) "The enlargement of European Union has an impact on India." What is this impact and why does it arise? Discuss fully.

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UNIT 18 E-BUSINESS

Objectives

After going through this unit, you should be able to:

- appreciate the role of internet in transformation of business and emergence of new business models;
- understand the infrastructure elements of internet supported businesses;
- understand the application of information and communication technology (ICT) in different functional areas of business and across supply chain;
- explain the utility in international trade and collaboration across globe; and
- learn the opportunities and challenges related to e-business.

Structure

18.1 Introduction

18.2 Information Technology in Business

18.3 Leveraging E-Business across Major Functions and Processes

18.4 E- Business in Practice

18.5 Summary

18.6 Key Words

18.7 Self -Assessment Questions

18.8 References

18.1 INTRODUCTION

Information and Communication Technology (ICT) is also referred as Information Technology (IT). This term is mostly associated with IT in internet, E-Commerce, E-Business and Digital Marketing. Information Technology has facilitated contact between any two places of globe and led to the development of integrated international E-Business. E-Business contributes towards speedy exchange of information related to markets, risks, exchange rates, interest rates, and credit worthiness. The crucial decision is to decide which E-Business model will best suit the goal. Each Company has been affected by E-business. E-Business and Marketing builds up huge information related to marketing to carry out business. E-Commerce enabled supply chain manufacturing aims at worldwide dispersion of manufacturing and distribution facilities where products are customized for local markets. E-Business and E-Commerce enable players in the supply chain processes to understand, predict and respond at the appropriate time to mitigate risk and save cost. E-Business and E-Commerce have affected all sectors of the society in all regions of the globe. It is therefore important to develop practical skills in formulating, implementing and evaluating E-Business strategies.

18.2 INFORMATION TECHNOLOGY IN BUSINESS

Information and communication technology (ICT) and its use has come a long way over the past couple of decades. Budgets grew rapidly during 90s till the

year 2000 which however, was followed by burst of the dotcom bubble. E-business, which was considered hype once, now is a must kind of stuff. IT capabilities have enabled improved business processes, IT has brought about new business models, new sales channels, and new customers. Technology and efficiency have become the driving force behind success in the 21st century economic reality.

US online retail business reached $175 billion in 2007 and is projected to grow to $370 billion by 2017. Business-to-consumer (B2C) e-Commerce continues its double-digit, year-over-year, growth rate, because of gradual exposure of consumers to the online market space and increasing adaptability. Online strategies are becoming essential ingredients of marketing mix.

The words like Internet, E-commerce, E-Business, Digital Marketing etc. have become very common in the domestic as well as international domains for more than one and a half decade now. Lot of adoption and adaptation across companies have taken place during this period in view of the phenomenon called, 'Internet Era' or 'Digital Era'. The advancements in this era have allowed corporations to reinvent their business models around the ubiquitous, deep, rich and increasingly functional Internet. Large and diverse sets of people scattered around the world can now, easily and cheaply, gain near real-time access to the information they need to make safe decisions and coordinate complex activities.

Few other terms out of the flood of terms coined during the web era which have become popular during this internet era are "Business Model" and "Business Plan". Lot of new age entrepreneurs ventured into business online and could get easy funding from venture capitalists in 90s. All they require to do is to have a business plan which indicates the business model underlining revenue strategy, operational plans, organizational set up, likely payoff, risk profile, etc. Most of these businesses tumbled after some time due to lack of sustainable value proposition. Only companies which offered real value based on sound fundamentals could survive the bubble burst. Interestingly, big corporates showed initial reluctance to place operational processes on web but moved gradually after the dotcom debacle and most of the corporates globally now use web in all possible ways. These corporates have properly defined web strategies aligned to their overall business goals and processes.

But this whole phenomenon started with these two innovations- internet and World Wide Web.

Internet and World Wide Web

Internet is a collection of networks which are connected together by traffic forwarding devices called 'Routers'. Individuals can access internet through Internet Service Provider (ISP). The information on the internet is carried by packets following a protocol acceptable across the internet users and service providers. The routers in the internet forward each packet based on the address specified on the packet. The acceptable protocol for sending and receiving packets is based on layer model called Transmission Internet Protocol/Internet. World Wide Web (www) is a subset of internet which is based on information for the users. The Web and Internet provide considerably powerful vehicles for freedom of expression, such as blogs, comment, and e-mail, and access can certainly be a route to educational and economic betterment.The story of World Wide Web began at European Particle Physics laboratory called CERN in 1989. Tim Berners-

Lee, at CERN proposed the context of hypertext for linking text based documents over computer based networks and later developed a text based browser. This inspired lot of interest to conduct research on web and in 1993 the first graphical browser was developed by Marc Andreeseen at University of Illinois. In the following year Andreeseen established Netscape in a partnership to further develop the web browser. The information for the users was accessed through a multi-component web system which includes web browser, web server, application server and a backend system. All the systems run on the communication platform called Internet.

E-Business

The concept may be fundamental but the impact on business is phenomenal. E-enabling is fundamental to e-Business and e-commerce to happen. E-enabling means a way of leveraging digital platform available to users around the world in the form of World Wide Web. Innovative business models are being developed as a result. It has the potential to provide developmental support to economies, businesses and individuals.

With the advent of World Wide Web, lot of uses were discovered and lot many keep evolving. The individuals started using it for communication and access of information. The businesses started looking at customers on the internet as an opportunity to offer information, products and services at a price or in many cases free of charge to sponsors of promotion on the basis of visitors to a web site. The use of World Wide Web by business is essentially due to inherent properties of the facilities provided by internet which are – mediating technology, universalities, network externalities, distribution channel, time moderator, information asymmetry shrinker, infinite virtual capacity, low cost standard, creative destroyer, and transaction cost reducer. Internet enables connectivity between individuals, groups and business organisations which gave rise to models like business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer (C2C), or consumer-to-business (C2B). It can also be within a firm or any other organization where it is called an Intranet.

Internet is a storehouse of advantages but there are risks associated with its uses as well. Individuals, businesses, states, civil society etc., have been leveraging its power since its invention but at times this power has been the reason of its abuse also. One of the inherent qualities of internet technology is positive network externalities as it becomes more valuable to users with more people using it; which means, as the network expands, it becomes more valuable. Internet is being used by companies as a substitute of distribution channel in case of information products or digital products whereas in case of physical products, it is being used as a supplement to provide service components of the tangible products at different stages of the purchase process. It enables businesses to operate round the clock by staging the execution process along the horizontal time line, shifting parts of the process to various geographical locations dissolving physical and time barriers. Partners in a business transaction can collaborate at any moment as web is always live and active. It has helped businesses to extend their reach and scope. Reaching anywhere is a function of a single or few clicks. Similarly, expanding scope of business and making targeted audience aware about it takes comparably lesser time and cost with this medium. It enables storage and display of huge information which makes it an attractive candidate for consumer retail in the online medium.

E-Business applications can be divided into **three** categories:

1) Internal business systems which include CRM, ERP, HRM

2) Enterprise communication and collaboration which include Voice over Internet Protocol (VoIP), Content management, e-mail, voice mail, Web conferencing, business process management, etc.

3) Electronic commerce which includes B2B , B2C, internet shop, supply chain management, online marketing, etc.

When organizations go online, they have to decide which e-business models best suit their goals. The concept of e-business model is the same but used in the online presence. The list of the currently most adopted e-business models comprise of E-shops, E-commerce, E-procurement, E-malls, E-auctions, Virtual Communities, Collaboration platform, Third-party marketplaces, Value-Chain Integrators, Value-Chain service providers, Telecommunication, Information Brokerage, etc.

E-commerce

The term 'e-commerce' is often used to indicate the sale and purchase of goods or services by electronic means, particularly over the internet. It also pertains to "any form of business transaction in which the parties interact electronically rather than by physical exchanges or direct physical contact." A more complete definition is - "E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform, and redefine relationships for value creation between or among organizations, and between organizations and individuals".

In a physical or traditional commerce system, transactions take place by way of a contact between humans usually in a physical outlet such as a store. For example, to buy a product, we need to go to a physical bookstore and buy the physical book from a salesman. But the transactions in a e-commerce mode take place with the help of digital communication and interface facilities. There are facilities online where we can even receive the products like digital material online. In nutshell we can complete the entire purchase cycle on internet. These two cases represent the extremes: the traditional commerce system on one side and the pure e-commerce system on the other. There are many variants and in many cases, e-commerce and physical commerce can complement each other. For example, to buy a book we go to Amazon.com and select a book, complete the transaction details online and receive book through physical channels. The e-commerce is more suitable for standard goods, low-value goods, digital goods, and for non-standard goods, perishable goods, expensive goods, and extremely low-value goods. Complex products such as cards and non-standard services are better served by integrating e-commerce and physical commerce.

E-Business Models

The advent of World Wide Web led to e-business which in turn led to development of newer business models which could leverage internet capabilities. It became a big hype towards late 90s but soon in early years of this decade, these models started crashing popularly know as 'dotcom burst'. Businesses and research scientists soon realised that basics of business need to be addressed and there is a need to align organisational culture and competencies with intended strategy

in the new domain. The concept of electronic computing, virtual storage and digital communication forms the fundamental basis of enabling e-Business and its application in various forms. While the concept may be fundamental the impact on business has been phenomenal. New governmental, social and business models are being developed as a result. If implemented correctly, digitalisation can positively contribute to social and economic structures in both the developed and less developed countries.

Roughly dividing the world into providers/producers and consumers/clients one can classify e-businesses as business-to-business(B2B), business-to-consumer(B2C), business-to-employee(B2E), business-to-government(B2G), government-to-business(G2B), government-to-government(G2G), government-to-citizen(G2C), consumer-to-consumer(C2C), consumer-to-business(C2B) etc. An e-business model is simply the approach a company takes to become a profitable business on the Internet. It can be the extension of brick and mortar business to internet as well by way of putting substantial portion of business processes there to create more value for its existing or new or both types of customers who access internet. There are many buzzwords that define aspects of electronic business, and there are subgroups as well, such as content providers, auction sites and pure-play Internet retailers in the business-to-consumer space. One of the popular models which evolved in this era are “Portals”. It is not necessarily a business model always, it can be an interface of an organization, association and any service provider. The idea behind portals is the same as that behind television advertising: aggregating eyeballs and directing them toward advertisements. But television viewers are passive, and people need to wait through the ads to see the shows they want to watch. The online platform is hyperlinked and can lead users to a number of places depending on the interest of the visitor. Content presentation is not serial. Viewers are active, not passive. But web advertisements are less effective with regard to appeal in the affective domain of the viewer vis-à-vis television commercials.

Don Tapscott, David Ticoll, and Alex Lowy in their book “Digital Capital: Harnessing the Power of Business Webs” have categorized the e-business models into five distinct categories: Agoras, Aggregations, Value Chains, Alliances, and Distributive Networks. The categorization has been made on the basis of various parameters like main themes, value preposition, customer role, knowledge focus and key processes.

The Agoras model builds on the main things of dynamic pricing. The value preposition is liquidity which means converting goods into a desirable price. The customer plays the role of a market player in this model. The knowledge focus of this model is on timing and marketing intelligence. The key process of this model is price discovery; an example of this model is e-bay which enables its customers to buy and sell things in an ongoing auction round the clock.

The Aggregation model is build on main theme of selection and convenience. It is one of the most prevalent models on the internet in the retail domain. The value proportion of this model revolves around optimization of selection, organization, price, convenience, matching and fulfillment. The customer in this model plays the role of the buyer. The knowledge focus is on the market segmentation, supplier offerings and fulfillment. The key process of this model is needs matching. The platform offered by the businesses should allow customers

to identify and select the offerings on the website to match their needs followed up by the process to fulfill that. Interestingly, the successful aggregators on internet have invested more in the physical infrastructure than in the digital infrastructure to ensure value delivery and value sustainability. The examples of the aggregators can further be divided in two categories – a) E-tailing, as the extension of the business function and b) e-tailing as a pure play. Some businesses which are in the brick and mortar retail have extended their presence to the internet to supplement their physical retail efforts and fall in the first type. There are retailers like Amazon.com, Fabmode, and Rediff.com which operate as retailers solely on the internet.

The third type of model, Value Chain, has the main theme of process integration. Some of the early examples of this model are CISCO and DELL. The value proportion of this model is design and delivery of an integrated product or service that needs a specific set of customer needs. The customer plays the role of value driver. The focus of the knowledge in this case is on innovation and supply chain management. The key processes that ensure the sustainability of this model are product design, customer knowledge and supply chain management.

The fourth model is Alliance Model which is built on the theme of the creativity and contribution. The value proposition of this model is creative collaboration in aid of a goal shared across a community of contributors. The customer plays the role of the contributor. The focus of the knowledge is on the community development, creativity, standards and role. The key process of this model is innovation. The ubiquitous and pervasive spread of open ware software like Linux can be attributed to this type of model. Here the users are the contributors as well. The last category is Distributive Network where the main theme is allocation/distribution. The value proposition of this model is to facilitate the exchange and delivery of information, goods and services. The customer simply plays the role of the sender, receiver or both. The focus of the knowledge is network optimization, visibility and transparency. The key process of this model is distribution. All the infrastructure providers and service providers of the internet services fall in this category.

Activity 1

List out at least two examples under the following modles:

a) B 2 B
b) B 2 C
c) B 2 E
d) B 2 G
e) G 2 B
f) G 2 G
g) G 2 C
h) C 2 C
i) C 2 B

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18.3 LEVERAGING E-BUSINESS ACROSS MAJOR FUNCTIONS AND PROCESSES

The Phenomenon of e-business has not left any company and its departments unaffected. Various functions of a typical business like marketing, sales, purchase, human resource management, supply chain management, finance etc. have leveraged e-business power, varying, of course, in its extent depending upon the strategy, status of their businesses, capacity and resources of these companies.

E-Business and Marketing

The growth of interest in the use of World Wide Web as a shopping and purchasing medium has fascinated consumers and companies alike. The customers can find lot of food for their thinking, action and feeling on the internet which has grown overtime. The wave started from the west and has spread to the other parts of the world at an unprecedented pace. It has also been complimented by mobile technology which enables individuals to access internet from any conceivable location and also to corporates to deliver offers to the individuals in their respective location and time. The individuals are increasingly using web to identify and select their products and services, figure out the criteria for optimized comparison and selection of the available offers on the net. In a way web has become an extension of human system and falls into the day to day routine system of individual action and thinking. As a result, marketing and sales departments of companies are increasingly leveraging the presence of individuals and communities on internet to innovate new product and service concepts, develop these concepts into offerings, communication to the targeted segments and provide services to the buyers. All this has detailed into development and creation of virtual markets on web which have extended to mobiles in most of the developed and developing countries. The concept of portals mentioned earlier is a manifestation of these developments. The aggregation of these portals has created virtual business sectors on the web called e-markets. Innovative firms are constantly trying to find ways of adding value through roll out of innovative processes, though with varying degrees of success. Trust is the key factor in marketing of goods and services, especially in the virtual world of web.

The marketing departments operating through internet are able to build and gather huge piles of information about their potential markets. This information can be translated and processed into meaningful strategies which have helped companies outsmart competitors because more knowledge of a customer decides the success in a highly competing world. The marketeers can research their customers in real time to understand the shifts of behaviour and liking at the earliest. However, this research is useful only once the backend processes of reaction to such changes are possible for the organization in question. The marketeers can gather a lot of competitive intelligence on the fly to finetune their strategies and actions. The e-business way of doing things provides marketeers an unprecedented opportunity to understand and penetrate international markets. It heels them access to culture, statistics about market size, trends, preferences, competition, and regulation in overseas markets. Having said that it is important that the marketing function is geared up to leverage this opportunity. It needs to have the capacity to differentiate valid information on the web and the capability to decipher content available in different languages, and analyse quantitative and qualitative information available. For example, an Indian company interested in looking at Chinese market or a

Brazilian market should have expertise to decipher content available in the languages like Mandrin, Portuguese and Spanish. It is important because lot of business related information and current and future trends are available in the reports, research articles, newspapers, magazines which are mostly published in various countries in their own languages.

E-Business and International Supply Chain Management

The term Supply Chain Management is defined as management of processes in coherent ways which are aimed at customer order fulfillment in the most optimized way. To achieve this all impediments to customer satisfaction are eliminated between ultimate customer and the raw material supplier. Along side the efforts to focus on customer satisfaction, the customer retention processes are proactively identified, mapped, streamlined and implemented. The processes are set up or improvised to minimize fixed cost components and automate routine processes and even unstructured decision making processes with the help of advanced computing software on top of networked systems in a progressive corporate. The trust as mentioned above, essential for e-business and e-commerce to sustain is achieved through proper transparency features wrapped with necessary security and privacy layers. All this by default helps cut on time and wastage. As a result, the orders are fulfilled according to desired time lines, at a lesser cost with a better quality.

The growing global economy and increasing free trade across borders has redefined the dynamics of competition for modern organisations. With product life cycles shortening and worldwide commercial competition increasing, success depends on adopting state-of-the art, effective global supply chain management (SCM) approaches. The corporates have been trying to understand and experience e-business technology applications which can be used to develop world class supply chain networks. Various companies have benefited by the E-Business way of managing processes across the supply chain. An earliest example is DELL Inc. Micheal Dell, founder of Dell Inc. operated web based direct to consumer model in PC computer market for the first time. The whole process of one level marketing channel with customers on web integrated tightly with suppliers of computer parts at the backend enabled Dell to drastically shorten the fulfilment cycle, higher customer satisfaction and less cost for carrying lesser inventory. Over time, the progressive corporate has spread its scope across the globe and have distributed their supply chain operations across to get leverage of both, comparative advantage and information technology enablers. The product being consumed in India may be assembled in Bangalore, but its parts may have been manufactured in dozens or hundreds of cities across the globe. Similarly, some small organisations may leverage internet power for some of its processes in its entire supply chain; may be to get orders, track information, provide post sales services, etc.

The planners and decision makers in organisations need to understand how e-business and e-commerce can be used effectively to reduce operational costs and increase efficiencies. The business-focused unit achieves this goal by exploring information-related problems, both internal and external to businesses. Online solutions to these problems are explored in such areas as human resources, manufacturing, customer relationship management, and supply chain management. Supply Chain Management using digital capabilities and advancements has

generated a lot of interest over the last 10-15 years. The decision at any point of the chain, whether in the domestic space or internal, affects rest of the stakeholders in the process with variable impact. There is a general view that companies need to be globally competitive in the domestic market because of the growing liberalization, especially in the case of India. The companies face acute competition here as well as in the international markets. It has become imperative for companies to improve the processes so as to reduce the cost and enhance the value addition through better quality output in both, products and services.

E-business and e-commerce enable players in the supply chain processes to understand, predict and respond at the appropriate time towards unforeseen changes and mitigate risk to save costs and stop downturn. It helps to secure the best outcome on the purchase side as well as sale side, by making collaborations efficient and effective. Utilities of digital advancements like mediating technology, universalities, network externalities, distribution channel, time moderator, information asymmetry shrinker, infinite virtual capacity, low cost standard, creative destroyer, and transaction-cost reducer come into play in different combinations and make the process efficient and effective. On the purchase side activities like vendor search, criteria discovery, selection, transportation, warehousing, clearing, quality validation documentation, payment, etc., can be improvised with the help of e-business and e-commerce power. The coordination utility of e-business way of doing things helps real-time collaboration for various decisions and activities beyond transactions among the supply chain partners on internet.

Supply chain management effectiveness and efficiency is mainly dependent on management of inventory, transportation facility and information. However, the efficiency of first three areas of management is again dependent on information leverage. Information helps to make the decision-maker alert and informed about the possibilities, opportunities and risk. Therefore, information technology including web based support is being extensively used in most of the progressive companies to handle various levels of supply chain issues. It helps to make everything visible across the chain so that the stakeholders face least inertia to access relevant information to take effective decisions faster. Supply chain transactions that involve e-business include flow of information, material and money. Companies have been using e-business for their supply chain transactions for various reasons like knowing and providing relevant information in the order fulfillment process, negotiating prices and contracts with customers and suppliers, getting orders, tracking and post delivery services. E-business in various cases is also being used for conducting financial transactions. For various multinational companies whose sales and business executives are spread across the globe, digital media is used to provide product information, sales guidelines, service questions, knowledge, etc., to facilitate them get the leads, negotiate and satisfy their clients/customers. Internet also enables pro-active customers to search, scan and select companies and products once the supplier hosts its information on the web.

The companies which want to tap the e-business functionality must understand the differences between using the internet and their channels for flow of information on products and funds. It needs to decide on the trade off part as well. E-business can enhance supply chain performance by pushing the top line by way of more direct sales, continued access, aggregated information,

personalization facility, interactive clarification process, dynamic pricing and efficient funds transfer. E-business has the ability to customize and personalize information which can intelligently shape each customer's buying experience and increase sales. For example, e-businesses use historical information to understand the customer behavior, likes/dislikes, and based on that, reminders and purchase recommendations are provided to the customers. The Internet, thus, offers the possibility of providing customers tailored buying experience which ultimately helps in increasing business revenues.

An e-business allows a firm or supply chain to take advantage of the cost-reduction opportunities. E-business helps production managers and other participants of the supply chain bypass intermediary points and connect directly to the customers. The elimination of intermediaries can reduce the costs. A manufacturer using e-business to sell directly to customers is able to reduce handling costs because fewer supply chain stages touch the product as it makes its way to a customer. For example DELL computers has been able to reduce the time of sales cycle , inventory requirement and working capital by operating online directly with the customers. But many companies which wanted to copy the model of DELL with a traditional multi level distribution channel faced channel conflict. They got resistance from their prevalent channels to operate directly. Therefore, a careful planning and proper web strategy is required before taking a decision on online direct selling.

Inventories can be lowered and optimized if the company postpones the introduction of variety until new customer order is received. The time lag between when a customer places the order and when he or she expects delivery offers an e-business a window of opportunity to implement postponement. An e-business can reduce facility costs by consolidating all processes pertaining to facility and location. In many cases, customer participation in selection and order placement allows an e-business to lower its resource costs. Companies using e-business facilities can avail more flexibility to manage volatility effects of various business drivers due to saving in time and resources. A company using e-business can have more leverage due to efficient inventory management. The rate of order fulfillment can be made significantly smoother than the rate at which orders arrive, which reduces the peak load for order fulfillment and thus reduces resource requirements and cost. The virtual consolidation of inventory and lesser need for taking inventory nearer to customer locations allows companies to better optimize the inter-linkage between transportation, location and inventory.

The visibility of demand enhances coordination and reduces the risk of volatility effects of demand on overall predictability and inventory issues. More relevant and usable information becomes available across the supply chain process champions which reduces cost and improves fulfillment process value.

Transportation costs have been highly scary in character due to continuous increase in price of crude oil in the international market and threat of oil scarcity and its reserves. Companies need to address transportation issues across inbound and outbound logistics. Inbound logistics costs are incurred to ensure optimum inventory levels within the firm and outbound logistics costs are incurred in relation to customer inventory replenishment. The inbound costs are relatively lesser vis-à-vis outbound costs because of economies of scale derived from large quantity orders during inbound material movement. Aggregating the inventories

increases the distance a customer order travels while decreasing the distance replenishment order travels. Thus, compared with a business with several physical outlets, an e-business with aggregated inventories will tend to have higher transportation costs (across the entire supply chain) per unit.

Setting up an e-business requires a large initial investment in the information technology that will support it. A firm will have to invest in both Web servers and programming expertise to help set-up e-business. Today, the software to set up an e-business is evolving rapidly, and there are several applications service providers (ASPs) that help set up the e-business infrastructure.

18.4 E-BUSINESS IN PRACTICE

It is essential to develop practical skills in formulating, implementing and evaluating e-Business strategies, as well as conducting critical analysis of e-Business models. The corporates and organisations need to understand how to generate, derive and share business value from e-business in a real life business context. In examining contemporary issues in e-business, it is important to explore how modern organisations are leveraging social networking, blogs, virtual worlds, mobile computing and various Web 2.0 applications for next generation e-Business.To make the initiative of e-business successful particularly in the context of international business it is important to align the internet base processes with the existing processes and ensure appropriate synergy between the two. The initiatives to satisfy customers with the help of internet must be backed properly with the help of suitable supply chain network. To dig out maximum advantage the coupling of processes across bricks and mortars businesses ensures more value and separating them adds to the inefficiencies within the supply chain. Incomplete consideration of shipping costs has resulted in losses by companies using e-business. Companies must be careful about the average cost component to fulfill an order and incorporate this in their overall pricing process. The value of setting up an e-business is not the same in all industries. Dell has been able to increase its profits after going on-line. The value of e-business for an industry depends on the extent to which firms are able to exploit opportunities offered by the Internet to increase revenues and decrease costs.

The similarities and differences in business to consumer and business to business supply chains must also be analysed. The methods used to develop a strategy for addressing the key issues of supply chain, the value added supply chain, and the differences between the business-to-business and business-to-consumer supply chains play a key role in the continued success of an organization. The organizational e-business strategy will result in advanced planning to meet current and future challenges on a global scale. A supply chain includes all the vendors who sell components that are needed to create a finished good sold to customers. A complicated product with many components has a large supply chain. Research departments of brokerage firms conduct surveys of supply chains, especially in the technology area, because each component of the supply chain is critical to the prospects of the company that uses the supply chain. In order to develop an adequate and functional supply chain that will maintain customer satisfaction and loyalty and be adaptable to current and future technologies, management must have a clear understanding of organizational strategy. Management strategy must be clear with measurable objectives in terms of supply and distribution

efficiencies. Concepts like business process reengineering, benchmarking, and process measurement become quite useful in this context. Because of the new business reality a sound strategy of supply must be developed between business and customers as well as between business and supporting businesses such as, for example, SAP and Amazon.com.

Supply chain that adapts to today's needs and the future anticipations of technology and demand will be critical to the survival of the organization. The supply chain must be value driven and adaptable to the customer as well as the competition. The supply chain must take advantage of new technologies as the organization evolves. It must contain contingencies and a vast array of distribution vehicles and backups to enable it to maintain efficiency and a quality of service for maintaining customer satisfaction and loyalty. The customer now has an expectation of service that was not possible twenty years ago. The value driven supply chain will help the organization to meet and exceed those expectations. Technology and efficiency is the driving force behind success in the 21st century economic reality.

E- Business Imperatives in International Business

A joint study by UNCTAD and the National Statistics Office showed 60 percent of local firms in Asia use computers. Many firms maintain websites that have helped sales. The report says "Internet access and the presence of a website strongly correlate to high sales per employee. There is a 10 percent increase in sales per employee in local firms that have websites and a 4.5 percent increase in labour productivity." It has, therefore, become an essential means of global trade with millions of users all over the world everyday doing at least something or something substantial which fulfills a requirement of being in the international business. The world is becoming smaller and the competition is growing exponentially on an increasingly global scale. Economic globalisation and the incorporation of new information technologies into business processes are changing current national and international distribution structures. E-business has become an essential tool to enable the organization to compete and survive. Communication in the instant and in real time has become a critical tool of economic survival in the modern business world.

E-business is a booster for expanding business across vast geographical areas and is thus a boon for international business. The traffic as well as quantum of international business transactions keep soaring year after year in spite of the huge crash in early 2000. With the appearance of this new business channel, many things which were certain and familiar in company management are no longer so. Many organisations are streamlining their business processes through electronic channels to strengthen their performance and competitive position. With the advent of global networking, the Net-enhanced organisations and supply chains are increasingly playing an important role in the national economy as well as in international business. There are various concepts, management challenges, and tools for the adaptation of business processes in e-business settings, reflecting the most recent trends in the application of information technology for business.

E-business and E-commerce have affected all sectors of the society in all the regions of the globe. It has created new dynamics in international trade and export competitiveness, particularly in Asian countries. It has promoted economic

development across the globe affecting international trade and investment and has created new market opportunities for companies in developing countries which deserve special attention. It has enabled trade in other sectors by enhancing market access and broadening the customer base, facilitating customs, transport and logistics. New services and goods have been created and co-created that can be traded online, such as those in the entertainment sector and the cultural industry.

It is widely recognized that E-business and E-commerce ride over the growth and development of internet and modernization in computing and information technology facilities which have been shaping the process of globalization, particularly in the productive, commercial and financial spheres. Though it boosted the growth of developed countries in the initial stages, progressive developing economies also benefited later. As per the UNCTAD's Information Economy Report developing economies have been catching up with Information and Communication Technology (ICT) due to stronger intra-regional business ties and rapid growth in mobile phone usage. China is the major player in Asian growth which is the largest exporter of ICT goods. India is second in line in terms of growth among Asian countries and it is the largest exporter of ICT services. The World Trade Organization (WTO) also reduced the tariff on ICT goods which promoted the trade of ICT goods between the countries. There has been an increase in Foreign Direct Investment (FDI) in ASEAN countries in ICT firms, as the ICT firms grow in these countries. The ICT sector has played an important role for expanding trade in Asia, both in ICT producing and using sectors.

Business process outsourcing (BPO), based on the use of Internet and ICT, is growing rapidly in many Asian countries, creating new export and employment opportunities. A group of developing countries have recently achieved a double digit growth rate in exports of computers and information. In the year 2005, the exports of $22 billion of computers and information from developing countries took place. India outperformed all other developing countries. The other main exporters are Singapore, Costa Rica, Argentina, Indonesia and South Africa. A major component of developing countries' computer and information services exports is information and communications technology (ICT)-enabled services to support business process outsourcing (BPO).

The growth of e-business has resulted in desegregation in packaging in the international logistics area. With smaller packages it becomes important to understand the possibilities of reducing cost for staying in the fierce competitive market. This, sometimes forces even collaboration among competitors. Irrespective of all the efforts of technology providers to improvise the selection of products and solutions online, it still cannot match the physical face to face / in store selection. This can sometimes result into returns which finally lead to bad experience and losses. Corporates using e-business in international domain must ensure that customers are involved at every step of the order fulfillment process. There are technologies used by successful online companies which allow its customers to provide feedback and inputs at the stage of product development, pricing, communication, order fulfillment process and post-purchase experience.

E-Business, SMEs and International Trade

One of the important segments of business is Small and Medium Enterprises (SMEs). This segment in many countries, including India has graduated a lot in

international trade. Having Web-based business can be an extremely attractive option for most SMEs to extend their customer base into a global market without much expense, but there are major hurdles and many hidden costs.

Many SMEs in developing countries have Internet access and use it to communicate with suppliers and customers, to search for business information and to showcase their products. These activities require affordable, high-quality access to the Internet and ICT products and services. An article in *The Guardian* describes how Elsouk, an e-commerce website set up with World Bank assistance, helps women artisans from Morocco, Egypt, Jordan, Tunisia and Lebanon sell their products abroad and even develop B2B direct relations. The Tortas Peru confectionary website, set up by housewives in Peru, enables women with children to work from home and thus earn an income. Using it for business helps reduce marketing, interaction and transaction costs that, for the SME, normally represent a significant portion of overall costs. The Internet also reinforces the SME's natural competitive advantages of speed and flexibility. It facilitates access to a series of new market segments for the SMEs and enables an SME to adapt its marketing approach to each segment. Since it is predicted that 80 per cent of the growth in e-Commerce will come from business-to-business transactions (as opposed to business to consumer or business-to-government), it is here that SMEs and businesses in the developing countries must find their opportunity and future.

One of the barriers faced by companies relates to delivery logistics and delays in customs clearances. Here, ICT can contribute by computerizing trade logistics and customs systems, making them more efficient and transparent and thus increasing trade flows. From a trade policy perspective, the WTO Information and Technology Agreement (ITA), concluded in 1996, forms a basis for liberalization and hence better dissemination of ICT products.

SMEs have gradually realised strategic appreciation of the dynamics of the Web and that they have developed capabilities for managing the information infrastructure for an e-business. Sensing the limitations of these small players and their thrust to tap international markets, lots of online market places have evolved overtime successfully like Alibaba.com, e-Bay.com, Indiatrades.com, etc. (See box below). Most of these platform providers allow entrepreneurs to assess the facilities initially for free or at a very nominal cost and the statistics published by these sites indicates progressive growth and learning.

4 Sep 2008 07:02:30 GMT

Mr. Yaseer Rehman , VESPECO INTERNATIONAL , PAKISTAN

Products: Surgical Instruments, Dental Instruments, Manicure, Pedicure, Barber Scissors, Hairdressing Scissors, Razors, Nail Cutters, Nail Nippers, Tweezers, Manicure Sets, Leather Covers

We have closed 12 business deals since becoming a Trust Pass member. Some customers have even placed repeat orders and a couple of orders were higher than our monthly production capacity.

We have realized that Alibaba.com is the real hub of international business because it allows you to conduct business very quickly. Time is money and people don't like to waste time sending and receiving emails all day. They like to finalize deals within a short time and if possible via an online discussion. Trade Manager makes this possible. A couple of months ago we spent three hours online with a Swedish Buyer and finalized a trial order of $5,000USD. If we discussed all matters through email, it would have taken us at least three days.

To make your Selling Leads more effective, try to post as many Selling Leads as you can and update them on a daily basis. Product descriptions must be complete and understandable because the first impression is sometimes the last impression. If we have time we try to update Selling Leads or repost them daily. It is the perfect way to stay on the top of the list and it has definitely given a huge boost to our business.

Since becoming a Trust Pass member, we have received 80 percent more serious inquiries. We try our best to reply to each and every inquiry, but we pay a lot of attention to how and what we say. Communication with customers must be clear, understandable and meaningful, and spark customer interest.

With Alibaba.com, we have built strong relationship with businesses in the EU within a short passage of time. Now we are working to complete further business deals for the future.

Source: www.alibaba.com

Activity 2

Arrange a meeting with an experienced executive of an SME which is engaged in international operations and discuss with him as to how the enterprise has benefited from e-business and e-commerce over the last one decade and what has been the trend? List the main points of your discussion.

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Challenges

The growing use and the corresponding dependence on e-business for international business operations have generated security concerns because the threats on internet outpace the useful features being developed and innovated. Over the years, IT departments have now been working in tandem with other functional departments to improve the business performance by optimized use of IT advancements. Investments have already been made for streamlining application portfolios, reducing infrastructure costs, improving governance, consolidating vendors, and outsourcing many activities. Companies for instance, use IT based platforms and services particularly web to manage supply chains with a network of thousands of suppliers. These factors make reductions in IT spending more complicated than ever. Simplistic cuts, applied across the board, may endanger critical business priorities from sales support to customer service. That potent message should resonate even among corporate officers anxious to find quick savings.

Newer and newer innovations are being introduced on the web which over time based on their utility, are being adopted by businesses like, blogs, forums, social networks, specialized auctions and other knowledge sharing and pooling tools.

The customer facing departments and talent searching organizations keep looking for such applications to address their corporate missions. While these initiatives are being followed, assimilation of new processes into the existing ones creates ripples in the domain of talent, human resource issues, employee and customer behavior and so on. Buyers and sellers conducting transactions through e-business or e-commerce cannot have total security as everybody runs some kind of risk. But the advances in technology keep bringing solution to mitigate issues. Data Encryption techniques can make e-commerce more secure than traditional credit-card trading. The difficulty lies in convincing the digital consumer that business site is really secure and that electronic trading is also perfectly safe. In spite of these issues, the new way of transactions is gaining ground gradually and people are getting used to it because the positives are higher.

One of the important challenges for growth and expansion of e-business is security and privacy in transactions. Transaction security pertains to three important components and related issues, namely: Transaction Privacy, Transaction Confidentiality and Transaction Integrity. Transaction privacy means that the transactions must be held private and intact, with unauthorized users unable to understand the message content. Transaction confidentiality implies that traces of transactions must be dislodged from the public network and that absolutely no intermediary is permitted to hold copies of the transactions unless authorized to do so. Transaction integrity pertains to the importance of protecting transactions from unlawful interference i.e., transactions must be kept unaltered and unmodified.

18.5 SUMMARY

The use of Information and Communication Technology (ICT) has become quite widespread today. It has improved business processes and has brought about new business models, new sales channels and new customers. The words: Internet, E-business, E-commerce, Digital marketing, etc. have now become household names.

The Internet is the computer network which allows computer users to connect with computers all over the world, and which carries e-mail. In a sense, it is a collection of networks which are connected together by traffic forwarding devices called 'routers'. It has enabled the development of World Wide Web (www). Internet has opened up new opportunities and new avenues for business and its expansion/development. New forms of businesses have come into being.

E-business is business that uses the Internet for almost all aspects of its business transactions, i.e., buying, selling, internal and external communications, etc. It aims to reach the customers directly, without using or depending on the distribution channels. It often does not have (physical) shops or offices that people can visit. E-business has done away with the constraints of time, space and national boundaries. E-commerce consists of buying, selling and ordering of goods or services using the Internet. There is not much difference between E-business and E-commerce, except that the former has a wider sweep and its scope includes many activities which are not just limited to the activities of buying and selling of goods and services. Electronic computing, virtual storage and digital communication form the fundamental basis of E-business and its application in various forms.

The new E-business models, developed over the last decade and a half, include B2B, B2C, B2E, B2G, G2B, G2G, G2C (government to citizen), C2C (consumer-to-consumer), and C2B (consumer-to-business), etc. E-business models have also been categorized into: Agoras, Aggregations, Value Chains, Alliances, and Distributive Networks.

The new wave of e-business has not left any business unaffected by it. The various functions of a typical business like marketing, sales, purchase, human resource management, supply chain management, finance, etc. have leveraged the power of e-business.

To be successful, it is essential that business houses should impart to or develop practical skills of their personnel in formulating, implementing and critically evaluating e-business strategies and models. For an international firm, it is imperative that it aligns the internet's basic processes with the existing (domestic business) processes and ensures appropriate synergies between the two. While e-business has become an essential means of global trade with millions of users all over the world, it has become an essential tool enabling business organizations to compete and survive. E-business and e-commerce have affected all sectors of the society and in all regions of the globe. It can prove to be a boon for SMEs who can easily extend their reach to all segments of the market quickly anywhere in the world for transacting their business.

There are some security and privacy concerns that need to be tackled by developing more reliable and sophisticated technologies and software.

18.6 KEY WORDS

Information and Communication Technology (ICT) : The technological developments in this area have enabled the emergence, growth and development of e-business and e-commerce and new forms of business models.

Internet : The computer network which allows computer users to connect with each other through computers all over the world.

E-business : Business which uses the Internet for almost all aspects of its business transactions, i.e., buying, selling, internal and external communications, etc. By reaching the buyers and sellers directly, it eliminates most of the intermediaries and brings in transaction economies.

E-commerce : Consists of buying, selling and ordering of goods and services using the Internet.

E-business Models : The new e-business models, developed over the last decade and a half, include B2B, B2C, B2E, B2G, G2B, G2G, G2C (government to citizen), C2C (consumer-to-consumer), and C2B (consumer-to-business), etc. E-business models have also been categorized into: Agoras, Aggregations, Value Chains, Alliances, and Distributive Networks.

18.7 SELF-ASSESSMENT QUESTIONS

1) What are the characteristics of Internet which have been used by the companies to redefine competition?

2) What are the important parameters to categorize business models which have evolved leveraging internet capabilities?

3) How has internet transformed the way firms interact and conduct transactions with their stakeholders in a globally spread enterprise?

4) What is the evidence to show that internet can be leveraged to enhance value across the supply chain in different verticals?

5) What are the major challenges faced by online firms or the managers overseeing online portion of their business?

18.8 REFERENCE

www. alibaba.com

UNIT 19 OPERATING IN A BORDERLESS WORLD

Objectives

After studying this unit, you should be able to

- familiarize the latest trends and issues in international business;
- identify the issues related to transfer pricing and double taxation;
- view decisions from an intellectual property rights perspective;
- appreciate the application of knowledge management in capacity development; and
- appreciate the technology transfer issues in cross border investments.

Structure

19.1 Introduction
19.2 Double Taxation
19.3 Transfer Pricing
19.4 Intellectual Property Rights (IPRs)
19.5 Knowledge Management
19.6 Technology Transfer
19.7 Summary
19.8 Key Words
19.9 Self-Assessment Questions
19.10 References

19.1 INTRODUCTION

The domain of business in the last few decades has gone through a major shift with regard to its movement, control, velocity and beneficiaries. The last decade has been marked by the growth of China, India, Brazil, Russia and few other countries which have been named as anchor countries or emerging economies in most of the economic and political debates globally. The competition has reached new levels forcing economies to re-look and review its policies and agreements. The industries, reflecting corporate mind set, and civil society have been quite active at inter governmental platforms like WTO, UN etc. Therefore, a wave of standards has been forced as imperatives for businesses to ensure fair level play across the globe and sometimes to retain control of the market shifts by powerful economies. Alongside, businesses have created and innovated new processes and models to stay competitive. These changes which are many, have appeared at local, regional and global level. Some important issues/developments related to these are: Technology Transfer, Knowledge Management, Transfer Pricing, Double Taxation, Intellectual Property Rights etc. This unit will give you some basic understanding of these concepts and a broader overview which helps managers to have a better perspective in today's business environment where global competition fuses with the local competition.

19.2 DOUBLE TAXATION

Governments in almost all countries impose taxes to ensure funds for their operations. However double taxation has evolved alongside growth in foreign trade of goods and services. Integration of markets and production across globe after mid-twentieth century, and more so in last few decades, has scaled up movement of people and multiple level investments, and operational versatility has become an imperative.

With the growth of liberalisation, competition and complexity have increased in the conduct of business which have led to newer business models, processes, organisational structures etc. on one hand and different tax regimes on the other. The different tax regimes have led to more complexity in regard to tax elements in the trade structure. As a result states and other concerned bodies have addressed these issues in order to bring some sort of fairness in this matter.

Concept

Inter-country / intra-country dimensions of competition at the corporate and government levels have made the subject of Double Taxation in international business quite challenging. Double taxation arises when corporates or individuals become liable for tax under the jurisdiction of more than one country due to owning of assets, income etc. International tax systems are structured with territorial perspectives and many countries do not levy taxes on income earned outside the country in which the parent company is located. There are also countries which levy taxes on all incomes earned domestically or otherwise. This raises the issue of 'double taxation'. It is a complex issue because of the varied tax structures prevailing across different countries. The complexity increases further because of growing trade flows and means of trade.

It is universally agreed that tax laws should be non-conflicting and that the property should be taxed once and not at different places having different tax jurisdiction. The efforts in this direction have continuously been made to address this issue by global stakeholders. League of Nations, an earlier world body gave emphasis on a tax structure that was compatible to changing requirements. OCED m del, though quite structured has faced criticism for being pro-north. The inte -government organisations, representing developed and developing countries, have shown concern from time to time and have made some contributions.

Hence to define double taxation, according to UNCTAD IIA issue paper series, "Double Taxation can be defined in a non-exhaustive way, as the imposition of comparable taxes by two or more sovereign countries on the same item of income of the same taxable person for the same taxable period".

Principles

In the context of double taxation, there are few main principles. The general principle is that taxes should accrue to the Government in whose territory the economic activity generating tax revenue has taken place. This is called Principle of origin. The state has the right to impose tax but at the same time is supposed to be accountable for fairness. The other principle is called "Principle of residence" which suggests that an individual or corporation is liable to pay tax in the country of residence on all income earned, from wherever it is earned. A combination of

both is found in Britain. OECD model follows principle of residence, while principle of origin is the basis in UN Convention for bilateral agreements.

International Trade and Taxation

Not only in the case of services and trading transactions, taxes on capital assets are attracted in most cases of acquisitions and mergers. It is not only the custom tariffs but dividend payouts, service charges, consultation fees, royalties, brand licensing fees, franchising and several other business activities that may attract taxes. Apart from the economic activity reason for levying taxes, states provide facilities and security to its citizens and corporates. Therefore, state subjects are expected to pay taxes proportionate to the services provided and in most states tax rates are proportional to public facilities and other kinds of support given to its citizens. States have to do the balancing act between fiscal gain through taxes and at the same time maintain the growth of trade. They have to not only to act internally but externally as well by working out ties and understanding with other countries. This results in bilateral treaties on taxes. The bias in tax treaties depends on the adoption of principles like principle of residence or origin.

The OECD model adopted in many treaties, having its basis in the theory of residence, favours mainly the developed partner. These are also used as incentive instruments to attract foreign investment. Tax avoidance is an offshoot of this policy measure.

Tax policy is modelled on lines of deduction, credit or complete exemption to ensure incentives for the intended stakeholders. All these approaches have different objectives from the perspective of capital exporting and capital importing countries. Due to lack of clarity on capital flows and its high mobility, it becomes tougher to ensure foolproof tax administration. The taxation related to flow of goods and services across borders is relatively easier as compared to taxation on foreign investments. The issue is not limited to companies working as partners situated in different countries, but it could be the same company operating across borders having differentiated tax structures.

As the corporates started expanding into other countries from their parent countries, pricing of all kinds of assets, services, and funds become complex, despite transfers taking place within the organization. It actually comes under multiple jurisdictions. This gave rise to the concept of transfer pricing which will be dealt in more detail in the following section. Government as well as multi-national corporations suspect each other as relatively advantageous. These situations result in conflict between business entities and authorities situated in different countries. Bilateral treaties have provisions to address such disputes through mutually agreed procedure, where one to one discussion method is used to arrive at a conclusion or arbitration where resolution is sought through arbitration mechanism etc.

The issue of double taxation is quite old and has become a more relevant concern in today's era of liberalisation and expansion of multinational corporations which have operations and offices across globe in many jurisdictions. Economic considerations prevail over everything else. Therefore, cooperation and agreement are the essential guiding forces, including taxation and trade issues.

The progress made is not regarded as equally fair in case of taxation rules as there is conflict of interest between global and local interests. The countries

need to set their targets/ priorities based on their capacity and resource strength. A theoretical input indicates that higher Foreign Direct Investment inflows have taken place as a result of a large number of Double Taxation Treaties signed with large capital exporters. However, this is effective only in case of middle income countries, but not so in the case of lower income countries.

19.3 TRANSFER PRICING

Multinational and bigger companies operate through multiple divisions or subsidiaries. These companies transfer goods and services across divisions. The pricing of goods and services that are transferred intra-corporate is defined as transfer pricing. It includes transfer of tangible and intangible items across the corporate sub-units. Transfer pricing, therefore, applies to transactions of all types including royalties, fee payments, dividends etc. Hence Transfer Pricing refers to the value of goods or services in intra-company transaction among subsidiaries that are present in different countries.

The pricing done this way helps draw parity as part of the global strategy to minimize tax and other such liabilities because of tax differentials present in various countries. Similarly, in domestic trade, transfer prices are normally based on either profitability of each division or maximization of profits of the company. When trade of goods and services take place among the corporate affiliates across the countries, several issues e.g. country taxation, tariffs, currency exchange come into picture while establishing suitable transfer prices. Multinational companies use transfer prices to optimize profit goals. Being present in multiple countries, there is a possibility to leverage benefits of trade regulatory system and rules prevalent in different countries. As a result, many times the investment in other countries is triggered by the tax rules of a particular country.

Approaches in Transfer Pricing

There is relatively little theoretical base compared to other areas of treatments around economic transactions. The research has so far focused on short term and long term impacts of transfer pricing. The theory developed on pricing approaches discusses computation through marginal cost of seller, market price, negotiated price, marginal cost and share in end profits. The approaches differ based on competition at various levels, market knowledge and dynamics and pricing objectives. The major practices comprise marginal cost transfer pricing and those that are based on market price. The former approach is based on the premise that the marginal cost of suppliers' production be considered as optimal transfer price assuming perfect information and uniform tax structures. The former concept varies with the intensity of competition, across different types of markets. Therefore, exogenous variables play quite a prominent role in influencing dependent variable i.e., pricing. The later concept based on market price considers the influence of markets in the closest vicinity as the main influencers. It may also be taken as general market price that would be charged in the open market. The market price based price is also known as arm's length price which is assumed to be effective in long-term rationalization of company-wide taxation and resource allocation issues. The approach for this concept further disaggregates into various recognized methods such as Comparable Uncontrolled Price Method (CUP), Resale Price Method (RPM), Cost-Plus Method (CPM), Profit Split Method (PSM), and Transactional Net Margin Method (TNM).

19.4 INTELLECTUAL PROPERTY RIGHTS (IPRs)

According to WTO IPRs are the rights given to persons over the creation of their mind.

IPR is the basic mechanism for controlling knowledge access by way of providing formal set- up, access controls on depersonalized knowledge created with the intent of furthering innovation. The innovation once codified from the tacit knowledge of its creators is normally considered as a public good. The reason is that the innovation and knowledge once created can be used by others. IPRs are the rights to persons for their creations which they can use for a certain period of time. It includes creations like artwork, designs, inventions, names, symbols etc. IP relates to inventions, and industrial designs. Trademarks come under the domain of industrial property, whereas copyright covers literary and artistic work and related designs. IPR infringement involves the use of protected intellectual property right without the authorization of the owner of the right. However, global business environment and the use of intellectual property mainly fall under patents, copyrights and trademarks. There has been a lot of research around these areas of intellectual property. The Unitarian theory revolves around chosen action to enable greatest good for greatest number. The Labour theory asserts the right of the person who has put in the efforts in any kind of creation, and the Personality theory supports the satisfaction of human needs by way of property rights.

IPR related Processes

An entity which owes the invention gets the patent which helps the entity to leverage that by way of making, using and selling the invention. The patents are given to inventions that are useful, noble and non-obvious and for a specific period of time and typically for 20 years. A trade mark typically belongs to a company, product or concept, picture, symbol by way of a unique name creating a unique identity. The trademark owner can leverage the trademark. The trade marks must be registered with the specified offices in the respective states to receive the IPR protection. Some of the best practices of IPR registered companies are that the internal controls over IPRs are in writing and includes procedures for monitoring and feedback. There is a division or a department within the organization to look after IPR laws and guidelines. There are written internal control procedures for assigning duties and tasks to a position rather than a specific person. It is seen that a periodic review is done of the transactions having IPR implications. The royalties, proceeds and indebt payments related to the use of IPR are accounted for wherever applicable and included in the price actually paid or payable. The communication exists between different departments to ensure that the information related to IPR issue is disseminated. The responsibilities of the Import Manager include holding the responsibility for adherence to IPR laws and guidelines. He/she must ensure that the staff involved in international business transactions have knowledge on the current issues and revelations relating to IPR. The accounting and finance departments properly account for royalties, proceeds and indirect payments related to the use of IPR and where applicable these payments are included in the price actually paid or payable.

Managing IPRs in International Business

In the context of international transactions, the import manager should conduct quality control reviews of its suppliers located in other countries to look for

items bearing marks that could involve potential infringements of registered and recorded trademarks. The import department should maintain data about imported merchandise mapped to the IPR and its specific requirements. This data should be updated on regular basis. The copy right is a sort of protection for the people who develop designs, artwork, pictures, literary work, software, music and the like. All these areas are properly regulated at the state and inter-governmental levels because it is important that goods and services which cut across boundaries need such kind of protection for sustainability of innovation and creativity. The World Intellectual Property Organization (WIPO) is a specialized agency and an inter-governmental organization of the United Nations. It is dedicated to developing a balanced and accessible international intellectual property (IP) system, which rewards creativity, stimulates innovation and contributes to economic development while safeguarding the public interest. The statistics from the WIPO indicate that the global as well as local companies are very much progressive towards getting more patents in their own countries and internationally as a matter of strategy and protection of their interests. The corporate world keeps watching each others' nose in the area of intellectual property so that they can sustain their competitive edge based on innovation.

Trade-related aspects of Intellectual Property Rights (TRIPS) are a WTO initiative to create a level playing field in the domain of intellectual property. The Agreement established minimum levels of protection that each government has to give to the intellectual property of fellow WTO members. It specifies enforcement procedures, remedies and dispute resolution procedures. The agreement emphasises enhancing social and economic welfare benefiting both the procedure and the users. Despite the stress on technical innovation, many advocates of trade liberalization regard TRIPS as a bad policy owing to TRIPS' wealth redistribution effects (moving money from people in developing countries to copyright and patent owners in developed countries) and its imposition of artificial scarcity on the citizens of countries that would otherwise have had weaker intellectual property laws.

Activity 1

Arrange a meeting with a knowledge executive of a multinational corporation operating in India and discuss how the latter approaches and manages its IPR, write down the main points of your discussion and share them with your peers in the counseling sessions.

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19.5 KNOWLEDGE MANAGEMENT

Knowledge management is a set of processes and methods followed by companies to identify, develop, represent and provide relevant knowledge that it possesses to its stakeholders. The knowledge management programmes evolve from corporate objectives like better performance, innovation, sustainability, collaboration needs, etc. under the heat of intense competition due to globalization and liberalization. Knowledge management is not seen as building a large electronic library but a collaborative output where people think together and the output is archived for further use. There is a myth that knowledge is highly people-based. However, while operationalising the knowledge management projects they often end up as technology implementation projects. The knowledge management encompasses many terms used by academicians which includes information systems, learning systems, strategic management and innovation. Similarly, knowledge management can be seen from different perspectives like technology, organization and ecology. The technology dimension focuses on knowledge sharing and growth. The organizational dimension focuses on facilitating knowledge process and institutionalization of the knowledge creation and dissemination process. The ecological dimension considers knowledge management as a complex system of people, knowledge and environmental factors.

Concepts related to Knowledge Management

It is essential to understand the concept of knowledge before we embark on the concept of knowledge management so that proper perspective is developed. The basic building block of knowledge is data. Data can be a hot object , processes, events and so on. Process data is called information. However, simply collection of data is not information. The process data to be called information represents something which adds to the learning of the receiver and therefore has a utility. Knowledge is information blended with experience and learning which could be in very general or specified in a particular domain.

The knowledge management concept is based on the understanding of key distinction between tacit and explicit knowledge. The tacit knowledge is generally subconscious, internalized and sometimes unknown competence. The explicit knowledge is conscious, external and mostly conscious competence. The knowledge management programmes are meant to convert this tacit knowledge into archived explicit knowledge. Therefore, it is important to identify the knowledge centres or the experts who have the knowledge based on experience and learning and extract that knowledge for the creation of knowledge management systems. There are specialists who are good at extracting the knowledge from the knowledge centres and they are called Knowledge Engineers. It requires art, persistence and resources to persuade knowledgeable people to share the knowledge with the Knowledge Engineers. It also requires appropriate policy measures to motivate the knowledge providers. Once the knowledge is extracted it is translated into set of roles which essentially describes systematic solution to problems, problem identification, reasons for the problems and so on. This information is translated into a set of rules and coded into a database which is called a Knowledge Database, the core of Knowledge Management System.

The whole process of knowledge management is done in the perspective of stakeholders/users knowledge requirements. Therefore, a thorough study of requirement analysis is done. These requirements also include the behavioral study of the users, processing styles, navigation styles etc. Based on this, an interface called knowledge user interface is developed. It works on knowledge inference engines which are software applications meant for processing the knowledge database to get the appropriate set of roles relevant to the users' queries. The inference engine along with the user interface ensures interactivity of the knowledge management system with the user because most of the time the query or the problem requires interactivity between the user and the available set of roles in various stages to arrive at the final or desired outcome.

Knowledge Management Capabilities

To create an competitive edge, the corporates must leverage their historical, existing knowledge and create new knowledge that places them in a vintage position. The organizations need to build various capabilities to make the knowledge management work for them. Technology comprises the most important part of the infrastructure necessary for creation of new knowledge and for building the archive of old and existing knowledge. By putting collaborative networks of information and communication systems, knowledge can be integrated. Technology being multifaceted it is important that the technological infrastructure supports all types of knowledge flows. One of the important developments in the recent past has been in business intelligence technologies which help the company to take on its competition at a high end level called analytics. Collaborative and distributive learning technologies enable companies to do away with structural and geographical barriers which help continuous growth of knowledge. Knowledge discovery technologies allow the firm to find new knowledge that is either internal or external to the firm. Knowledge mapping technologies allow the firm to effectively track sources of knowledge, creating a catalogue of internal organizational knowledge. Knowledge application technologies allow the firm to track knowledge about its customers, partners, employees or suppliers.

The technological structure has to be supported by appropriate organizational support which requires necessary institutionalization. Therefore, it is necessary that organizational structures are designed to encourage knowledge sharing within the processes and across the organization. It is also important that the culture of the organization is supportive of the knowledge sharing process. Ability to do that is one of the key competencies required at a firm level. There should be encouragement to employees to interact formally and informally so that relationships, networks and perspectives are shared by people working in different spheres, different processes, different departments and so on.

One of the important areas of knowledge management process along side the growth of knowledge management system has been the focus on protection processes. The organizations having evolved in this area also start focusing on the security oriented knowledge management processes to protect the knowledge and avoid its misuse. To protect its knowledge and therefore its competitive advantage, it is necessary that it is protected. This issue is seen in the perspective of intellectual property rights, though not all knowledge can be defined under IPRs. Therefore, necessary measures with regard to policy, planning and execution need to be taken to ensure that there is least chance of undesired leakage.

Like most other change projects knowledge management projects survive on senior management support. The support is particularly crucial for transformation oriented knowledge projects. The support can be in the form of sending messages regarding the criticality of a system, corporate success , providing resources and funding and also getting engaged in the process.

Activity 2

Scan the necessary literature on knowledge management and note down the main points in relation to the following:

a) Why knowledge management assumed greater importance over the recent years?

b) How can a firm go about strengthening its knowledge management capabilities and what should be its priorities?

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19.6 TECHNOLOGY TRANSFER

The importance of knowledge capital transfer has grown over the years in international business due to increasing trade between countries, resource scarcity and liberalization. The reason is that the knowledge transfer process in acquisitions is quite different from the other ways of managing the relationships between two corporate entities located across boundaries. The only comparable situation would appear to be in strategic alliances, in which the approach to knowledge sharing changes as the alliance evolves. The economic and social scientists have seen that when a source firm possesses a superior technology relative to a host firm and if the source firm opts for FDI, technology may diffuse to the host firm if it hires workers who have been exposed to the superior technology by working for the source firm. Further, that the source firm may be able to increase its profits by raising enough the wages it pays to its workers to prevent them from switching employers. Such a wage premium can raise the source firm's profits by preventing cost reduction for the host firm that would otherwise occur.

Implications

Technology transfer increases the host companies' gains and value potential which translates into utilities for its stakeholders. If the realization of one of these benefits is insufficient to make FDI more attractive relative to production elsewhere for the host country, the latter can leverage appropriate policy measures to lure investments along with the desired technology. While there are some advantages, there are some implications too. **First,** besides technology transfer the other major explanation for productivity increase is FDI heightening competition. Heightened competition forces productivity improvement. **Second**, it is also possible that firms have vested interests for putting FDI in a shielded communication during the initial entry times to ensure that host state policy remains favourable.

Sometimes they enter wanting lo learn new capabilities. Investors may be strongly influenced by the initial level of competition in the market they are entering. Research has found that foreign presence is correlated with significantly higher productivity when large technology gaps do not exist between foreign and host levels. At times foreign firms enter, technology transfer is available, but incumbents are unable to absorb the new capabilities.

Since the transfer of technology brings about change with multitude of dimensions, the utility is governed by the relevant drivers operating at different levels of the economy at local and global levels. Decision makers in recipient countries must evaluate the consequences of transfer in terms of operational, economic and technical feasibility.

19.7 SUMMARY

Double Taxation takes place when the same income (or property) is subjected to tax (or tax levies) in more than one country. The issue arises because of the way the tax systems are structured in different countries of the world which, of course, are not uniform. Some counties (or states) levy taxes based on the 'principle of origin' (that is where the income originates by reason of the economic activity taking place and which led to the generation of income), while some other countries (or states) levy taxes based on the 'principle of residence' (that is, taxes are payable in the country of residence on all incomes earned wherever in the world). The chances of double taxation in international business increase because of its very nature. If economic harshness and unfairness that double taxation results in is not mitigated, it leaves the parties affected feeling aggrieved and discouraged, besides giving a disincentive to foreign trade/business. Several countries of the world have entered into mutual double taxation treaties which address to and take care of double taxation problems.

Transfer pricing is used by multinational corporations when goods or services are transferred from one unit/division/entity of the corporation to another unit/ division or entity. The transfers take place at a price which, of course, is internal to the corporation. However, prices can be fixed in such a way that, overall; the corporation is benefited at the cost of the host country which might lose its revenue in taxes, etc. The governments of the host countries, therefore, feel concerned and do whatever is possible to minimize the impact of transfer pricing on its revenues. There are various approaches to fixing transfer prices.

Intellectual Property Rights (IPRs) arise from holding of patents, trade marks, copy rights , etc. which accrue to a person from inventions, innovations or new scientific discoveries, etc. registered with the country's assigned authority. New technologies often have IPR significance. In international trade or business, the parties concerned have to take care of such aspects and have to respect the property which, otherwise, may lead to legal tangles. The World Intellectual Property Organization (WIPO) is an inter-governmental organization of the United Nations meant to regulate such matters in the public interest and to promote economic development.

Knowledge Management includes all processes and methods employed by an organization to identify, promote, develop, gather, use and provide knowledge to its members and other stakeholders for firm's continued growth and

profitability. Knowledge management has become imperative due to the present fiercely competitive environment. It derives its sustenance from new knowledge/ learning created, innovations and new technologies developed or acquired. It has a special meaning for international business players as they have to compete in the world market against the best in their field.

Technology transfer is taking place on a large scale because of greater flow of FDI, need for early diffusion of technologies, and increasing mutual inter-dependence in several matters. Technology transfer, whether on government-to-government level or private-to- private level, gives rise to several issues (environmental, economic and legal) which need to be resolved appropriately.

19.8 KEY WORDS

Double Taxation : Arises when the same income (or property) is subjected to tax in more than one country. It discourages international business/trade unless the issue is resolved.

Transfer Pricing : The practice of pricing goods and services transferred from one unit of the company to another (i.e., internal transfers).

Intellectual Property Rights (IPRs) : Legal rights arising from holding of patents, trade marks, copy rights, designs, etc. which have been granted by competent authorities.

Knowledge Management : Includes all processes and systems to promote and preserve new and existing knowledge for use of the organizational members for gaining competitive edge.

Technology Transfer : A transaction in which the owner (seller) of a technology (who has proprietary rights) supplies know-how (documentation such as blueprints, manufacturing drawings, etc) through licensing or some other arrangement to the licensee (buyer) of technology for a consideration.

19.9 SELF-ASSESSMENT QUESTIONS

1) What are the important principles and concepts which help us to have a basic understanding of double taxation issues?
2) Whom does double taxation affect across border transactions?
3) What is transfer pricing? What are the various approaches to transfer pricing?
4) What is IPR and what are its different categories? How can a corporate or individual acquire the property right for the technology based innovation and design work?
5) What are the management challenges in relation to IPRs for a firm in the global context?

6) What is knowledge management? What is the framework to understand progress of a firm in knowledge management process?

7) What is technology transfer? What are the determinants of the technology transfer from the provider's perspective as well as receiver's perspective?

19.10 REFERENCE

www.wto.org