INTERNATIONAL MARKETING

(DBUS42)

(MBA 3Years)

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BLOCK 1

INTERNATIONAL MARKETING – AN INTRODUCTION

In this first block of the course of International Marketing, an attempt has been made to give you an overview of the scenario on International Marketing and to provide you with an exposure to the conceptual frameworks that exist. The block consists of three units. The first unit called Scope and Size of International Markets explains the distinction underlying the terms International Trade and International Business. It also brings out their underlying premises. In this unit we have also discussed the major economic movements that are taking place in the world today.

The second unit on Conceptual Framework explains the underlying process of management for international marketing.

The third unit titled Institutional framework discusses the institutional framework that an exporter in India can use.

UNIT I
SCOPE AND SIZE OF INTERNATIONAL MARKETS

Objectives

After reading this unit one should be able to

- define the premise for International Trade and Business
- define the role of the International Marketing Manager and Government in Foreign Trade and International Business
- define the type of questions that are raised in International Marketing
- give an overview of world's major regional economic groupings.

Structure

1.1 Introduction
1.2 Definitions
1.3 Reasons and Motivations Underlying International Trade and International Business
1.4 Exchange Rate and Balance of Payments
1.5 Basic Modes for Entry
1.6 Nature of International Marketing
1.7 Role of Government in Foreign Trade
1.8 India's Foreign Trade
1.9 Regional Economic Groupings
1.10 Summary
1.11 Self-assessment Questions
1.12 Further Readings
1.13 Appendix : Statistics of World Trade

1.1 INTRODUCTION

A company manufacturing a product finds that the market for its product is currently saturated.

The managing director of the company calls a meeting of all the functional heads to discuss the problem. In the meeting it emerges that while the production runs cannot be shortened or cut off because of the underlying economics, the market doesn't seen to let up.

The problem before the managing director is 'what should be done now ?'

One of the suggestions that emerges during the meeting is to "expand the market size by crossing the national frontiers".

To this suggestion the managing director has posed certain fundamental questions:

Where should he expand to? How can he do this? Would it be feasible to maintain the expansion even when the domestic market lets up?

Basically the managing director has raised the fundamental questions that are posed by any international marketer. We shall attempt to answer these questions in this block but before we answer these questions, let us understand the definition and reasons for international marketing and foreign trade.

Activity 1

A business executive has recently been to Europe on a holiday, and finds that there is a massive demand for his product in that market. He feels that the company should start exporting immediately. Comment on how should he handle this problem?

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1.2 DEFINITIONS

When a country crosses its national frontiers to market its product it is indulging in international marketing. Phillip Cateora and John M Hess define international marketing as "International marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation."

Yes, the definition sounds very similar to that of marketing, for it is meant to be, the only difference being that marketing task is carried on in more than one nation. This fact by itself adds many complexities to the marketing task (as we shall see later on).

In the common parlance, the terms international marketing and foreign marketing or foreign trade are used interchangeably. But actually they are different and deal with different issues. The term foreign trade is used when we want to talk about trade between nations. It has a macro perspective whereas international marketing (IM) has a managerial perspective. IM deals with issues which concern a firm and not the nation as a whole and therefore the question raised in each area are of a different nature as we shall see.

1.3 REASONS AND MOTIVATIONS UNDERLYING INTERNATIONAL TRADE AND INTERNATIONAL BUSINESS

There is growing contraction of the world because of better communication and transportation facilities, and the rapid development of domestic economies and concomitant increases in purchasing power of the people. The current interest in international marketing and foreign trade can be explained in terms of changing structures and dynamic changes in demand characteristics of world markets.

Both the firm and country have reasons for entering into international business and foreign trade. While the reasons are often inter-linked, each has its own premise.

International Business

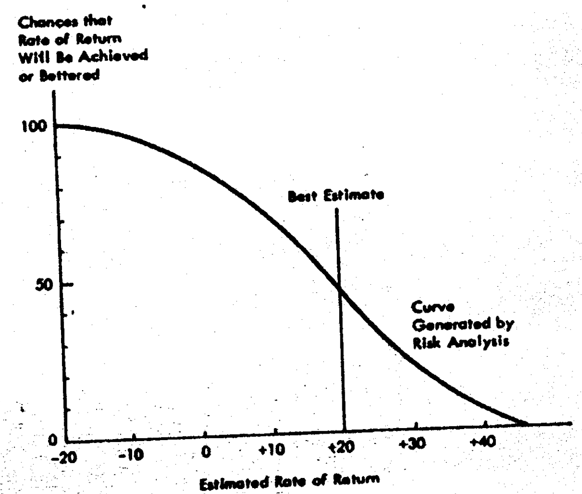
The vast domestic markets have provided the firms an opportunity for continued growth which finally reach a point where the possibility of continued expansion levels off.

The survival of these firms has come into question, for it has become increasingly difficult for these firms to sustain customary rates of growth as demanded by their shareholders.

These companies have been forced by the 'economic criterion' to locate international markets to sell their surplus production and to gain cost advantages. Besides this, foreign markets may offer high profit margins which gives added impetus for going international. Past experience has shown that profit margins yielded on foreign investments have followed pattern.

Exhibit 1

Estimated Rates of Return on Investment



Note: In reading the graph, the "best estimate" is a 20 percent return on investment; the "Risk Analysis" curve shows an 80 percent probability of atleast a 0 percent return on investment, a 50 per cent probability of at least 19 percent return on investment, and a 20 percent probability of atleast a 30 percent return on investment.

Source: Phillip Cateora and John M Hess.

Most of the firms world over are gearing up for action for besides these reasons the Governments of various countries are providing more and more support and incentives to firms involved in foreign trade (the push factor). Taking advantage of incentives is yet another reason for going foreign, schemes like the tax free export incomes etc. are being offered by the Indian Government to promote foreign trade.

Exhibit 2

Foreign Exchange Earnings of Top Ten Companies in Private Sector for Year 1991-92

Net Foreign Exchange Earnings	(Rs in lacs)	Total Foreign Exchange Earnings	(Rs in lacs)
ITC	33,480	ITC	46,205
Century Textiles	15,123	Tata Steel	45,562
Su-Raj Diamonds	14,106	Tata Engg.	25,234
Tata Engineering	13,671	Su-Raj Diamonds	20,286
Hindustan Lever	12,482	Century Textiles	19,468
Madura Coats	7,516	Hindustan Lever	18,414
Britannia Ind.	7,183	Essar Shipping	11,868
E.I.Hotels	6,611	Bombay Dyeing	11,536
Mafatlal Fine	5,820	Madura Coats	9,613
Eassar Shipping	4,551	Sesa Goa	9,175

Source: Economic Times 29-10-92

Although profit is the underlying motive, most of the firms are directed into International market because of any of the following five reasons as identified by Vern Terpstra:

i) **Product Life Cycle:** A product may be at the end of its life cycle in one market and not even introduced in another. The unwillingness of the firm to write off its productive assets may force it into international markets.

ii) **Competition:** In an effort to avoid competition which may be intense in the domestic market the firm may choose to go international.

iii) **Excess Capacity:** In an effort to minimise its fixed cost per unit, the firm may undertake foreign orders.

iv) **Geographic Diversification:** This has to do with the strategy that a firm may adopt. Instead of extending its product line the firm may just choose to expand its market by going international.

v) **Increase the Market Size:** In an effort to expand its operation a firm may choose to go international.

Foreign Trade

With the growth of materialism, every individual has become interested in improving his/her standard of living in terms of material comforts. This has forced the Governments into foreign trade to yield the underlying economic benefits and thereby improving the standard of living of its people.

The gains from international trade arise from the local production advantages which in itself is a function of differences in availability and the cost of factors of production.

Thus the difference in factors like the capital availability and cost of capital, specialisation of labour, their wage factor, availability of managerial talent determine the area of product specialisation that a country will enter into to gain the cost of advantage. The production specialisation will lead to an improvement in productivity and thereby an increase in the real income if the countries indulge in free trade. This explains the reason for importance of balance of payment of a nation and exchange rate.

In economics, three theories have been propounded for explaining the reason for foreign trade. These theories are the classical theory, the opportunity cost theory and the equilibrium theory. Underlying each of these theories is the theory of relative advantage. It is therefore necessary to understand the principles underlying the theory of relative advantage.

The Theory of Relative Advantage

The theory of relative advantage deals with the trade of goods and commodities. It is based on the premise that a nation gains by trading with other nations in those goods in which it has an advantage over the other nations in terms of cost of production. This advantage in terms of cost of production could be absolute or comparative. Let us illustrate this further using the classical theory to explain these concepts:

Absolute Cost Advantage

Uptill the late 18th century it was the theory of mercantalism that held ground. Most of the economic policies laid during that period were based on the theory of mercantalism. In 1776, Adam Smith propounded the theory of Absolute Cost Advantage to combat against the theory of mercantalism.

The concept of absolute cost advantage states that when goods can be produced more cheaply in one country than in another, the first is said to have an absolute cost advantage over the other country. It would be in the interest of each of these countries to specialise in production of the commodity in which it has an absolute cost advantage and trade. This way the productivity of both nations increases and thereby both nations stand to gain.

Thus while India can produce Tea more cheaply than Great Britain and Britain can produce engineering goods more cheaply than India, it would be in the interest of both countries to concentrate in the production of the goods in which they have absolute cost advantage and then to trade. Ofcourse the cost advantage in production must be grater than the cost of transportation incurred in moving the goods.

Comparative Cost Advantage

But in reality what happens is that a country may possess absolute cost advantage in production of both or all the products. Would it then be in the interest of both countries to trade? The answer is yes.

Using the classical theory (which assumes two nations and two commodities) to explain this phenomenon. Let us assume that there are two countries A and B and two products X and Y. Each of these countries has a workforce of ten men. While in country A each man can produce 6 units of X or 6units of Y, man in country B can produce 4 units of X or 2 units of Y.

Now assuming that men are equally deployed and no trade exists, the following scenario emerges.

Production per Working Day

Country	X	Y	Total
A	30	30	60
B	20	10	30
	50	40	90

Here we see that country A has 2 times the production than that of country B. The real income of A is therefore also 2 times that of B.

Now if the countries agree to specialize so as to maximize the total production by specializing in the products in which each has relative advantage. The following scenario emerges.

Country	X	Y	Total
A	10	50	60
B	40	00	40
	50	50	100

Thus we see that the total production of both economies taken together increases by 10 i.e., both economies stand to gain. Various combinations of this are possible. But it has to do with gain, how this gain will be distributed depends upon the market.

But these models are based on the following assumption:

- There must be demand for these products.
- The production gains are greater than the cost of trading
- Products must be identical i. e., product differentiation concept does not exist.
- Thee must be an effective market information so that the traders are aware of the cost differentials as they exit.
- The differentials must be large enough to interest the entrepreneur.
- Tariffs must not exceed the difference in cost after transportation and profit are considered.
- No other political or financial restrictions inhibit the trading process.

As pointed out earlier this is a macro – economic theory that deals in the trade of commodities or goods. But like all macro – economic theories it fails to explain other related phenomena because of its underlying assumptions .One phenomena that it fails to explain is the existence of multinational concerns and their desire to invest in foreign lands. Two theories have been expounded to explain why multinationals exit. They are as follows:

i) The Oligopolistic Explanation

ii) The Product Life Cycle Approach

The Oligopolistic Explanation

Many industries have become highly concentrated or oligopolistic worldwide. The industry is dominated by few but large firms. (IBM and computer industry is an example to this.) In fact many countries are making specific efforts to restructure their industries in order to make them competitive worldwide. In 1970 Japan had announced its plan to restructure its computer industry. Today EEC is doing it on a large scale, to make its industries more competitive vis – a – vis Japan and North America.

The reason for restructuring industries and making them oligopolistic in nature is to yield the benefits arising from size. These firms have huge capital resources to draw on and large production capacities. They are better positioned to identify market gaps and enjoy quasi – monopoly advantage even if they are short – run in nature. They are also positioned to exploit their technological advantage to the fullest. In the word market, they become more and more cost competitive as they move along their learning curve.

But the very size which is the reason for their existence and growth brings along certain weaknesses.

They become highly dependent on their establisher markets, efficient utilisation becomes a must. They require huge supply of raw materials and other inputs which may not be forthcoming as and when required (this probably explains why they undertake backward integration). They also become resistant to new ideas For this might mean writing off large asset values. Although this has been argued against in terms of movement from one market to another, past experience has shown that they tend to buy out the rights for new ideas and sleep on it till they have recovered their investment.

Product Life Cycle Approach

In any given market, the product passes through four distinct states. The introduction, the growth, the maturity and the decline.

The concept of international product life cycle when applied to international business emphasises on price and cost changes and changes in production process for explaining the existence of multinational firm (investment in foreign countries).

When the product is in the introduction stage both the price and costs are high. The production process is job shop in nature. But as the product passes from introduction to the growth stage the production becomes physically differentiated in the market place. The price and costs still remain relatively high since new and specialised equipments are brought into the scenes to cope with the growing demand.

However when the product enters the maturity stage. There are many competitors in the market place and the demand and price is highly elastic. The product has to be psychologically differentiated to be sold. The production is on a large scale, therefore the cost of production comes down drastically.

The multinational firms exploit this price, cost and production relationship by moving the product from one market to another. Thus while personal computers are in their early maturities in the USA they are in thier early growth in India. By moving the same product from the American market to the Indian market the companies can obtain large returns. As long as the demand can be created or utilised this approach is feasible.

While these theories basically explain the economic reason for international trade and business a nation /firm may have political and other motivations for entering into business in a foreign land.

Activity 2

Briefly explain why a firm goes in for international business. Also explain the reason for any firm to make investment in a foreign land.

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Explain the economic and non – economic reasons underlying foreign trade .

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1.4 EXCHANGE RATE AND BALANCE OF PAYMENTS

Exchange Rate

A business operating in the international environment is faced with a two price system i.e., the price of the product and the price of the currency.

With the collapse of the Bretton Woods system of fixed but infrequently adjusted exchange rates in the early seventies, the generalised floating exchange rate concept has come into existence . With the advent in the generalised floating exchange rates in the second quarter of 1973, most countries are exposed to enhanced rate risks because of frequent adjustment in nominal and real exchange rate.

This phenomena of generalised floating exchange rate has great implications for developing countries, owing to their dependence on developed countries for trade. Therefore any adjustment in the exchange rate of developed countries would mean implications on trade and balance of payments and thereby an influence on the price levels existing in the developing countries economy.

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Exhibit 3

Exchange rates as on 1st Feb ., 1993

	Selling		Buying	
Currency	TT/DD	Bills	TT/DD	Bills
£ Stg	2.1835	2.1790	2.2040	2.2055
US $	3.1800	3.1725	3.2075	3.2100
Can $	4.0275	4.0175	4.0675	4.0725
DM	5.1625	5.1500	5.2125	5.2175
DG	5.8075	5.7950	5.8650	5.8700
SwFr	4.7700	4.7575	4.8150	4.8200
BelFr	105.50	105.00	107.00	107.00
FrFr	17.5225	17.4825	17.6950	17.7075
It Lira	4808	4796	4863	4867
J Yen	397.00	396.00	401.00	401.50
Dan Kr	19.9125	19.8675	20.1100	20.1200
Nor Kr	21.93	21.88	22.17	22.18
Sw Kr	23.41	23.36	23.66	23.68
Aus Sch	35.93	35.84	36.41	36.44
Aus $	4.6925	4.6825	4.7425	4.7475
NZ $	6.1625	6.1475	6.2300	6.2350
MR	8.3325	8.3150	8.4250	8.4300
SD	5.2350	5.2225	5.2850	5.2900
Hongkong $	24.59	24.53	24.82	24.83

Note : All the above rates are in units of currencies equivalent of Rs.100

Source : The Times of India, 2nd Feb . 1993

There are a variety of variations existing in the generalised format. A country could peg its currency to the currency of any one country or to the currency of several countries. Alternatively it could follow a free floating or managed floating system.

After a brief trial of single currency peg, in 1975 India opted for a multicurrency peg to a weighted basket of currencies. This basket contained currencies of major trading partners of India. (The exact basket remains undisclosed.)

The value of the rupee is fixed on this basis allowing for a margin of 5% (on either side) to account for its economic policy and macro- economic factors. This briefly the value of any currency today depends upon the demand and supply of that currency in the international market. The basic economic premise underlying the valuation of currency is the purchasing power parity theory.

Balance of payment

The advent of generalised floating exchange rates has made it necessary for all countries to manage this. It has become necessary for all counties to maintain an account of all its financial transactions. This account is known as the Balance of payment. It is similar ɔ the double entry system of accounting and accounts for all inflows and outflows occurring from a country. Like all double entry accounts, even the balance of payment must balance i.e., inflows = out flows. The fact that Balance of payment account balance does not mean that a nation is in a good or poor financial condition. It is in fact a record of conditions affecting the country and not a determinant of conditions affecting the country.

Thus the Balance of payment (BOP) gives an economic picture of the country.

Exhibit 4

India's Trade Balance in the last few years

	Imports	Exports*	Balance
		Rs. Crores	
1960-61	1,122	642	- 480
1970-71	1,634	1,535	- 99
1980-81	12,549	6,711	- 5,838
1985-86	19,658	10,895	- 8,763
1986-87	20,096	12,452	- 7,644
1987-88	22,244	15,674	- 6,570
1988-89	28,235	20,232	- 8,003
1989-90	35,416	27,681	- 7,735
1990-91	43,193	32,553	- 10,640
1991-92	47,813	43,978	- 3,835

* Including re-exports.

Source: Statistical Outline of India (Tata Services Limited)

Exhibit 5
SELECTED EXPORT RATIOS

	India's exports as % of			
	World exports	India's imports	India's national income	Value terms of trade(1978-79 =100)
1960-61	1.05	57.2	4.2	n.a.
1970-71	0.64	93.9	3.8	127.4
1980-81	0.42	53.5	5.4	80.8
1985-86	0.45	55.4	4.7	107.6
1987-88	0.47	70.5	5.3	122.1
1988-89..................	0.47	71.7	5.7	125.2
1989-90	0.53	78.2	6.9	n.a.
1990-91..................	0.52	75.4	6.9	109.3
1991-92	[0.50	91.8	8.0]	n.a.

* Calendar years.
National Income at market price.

Source: Statistical Outline of India (Tata Services Limited)

Exhibit 6
BALANCE OF PAYMENTS

Item	1991-92	1990-91	1989-90	1988-89
	Rs. Crores			
A. Current account				
Exports	44,607	33,178	28,229	20,647
Imports	51,522	47,083	40,642	34,202
Trade balance	- 6,915	-13,906	-12,413	-13,556
Non-monetary gold	494	—	6	—
Official transfer, net	1,117	819	897	724
Other invisibles, net	-947	-779	128	1,251
Current account balance	**-6,251**	**-13,865**	**-11,382**	**11,580**
B. Capital account				
External assistance, net	6,792	4,070	3,090	3,210
Commercial borrowings, net*	4,673+	1,309	2,958	2,743
NRI deposits, net	1,562	2,260	4,000	3,636
Other capital, net	4,110	3,004	2,281	1,887
Total capital account	**14,013**	**10,643**	**12,329**	**11,475**
C. I. M. F., net	**2,079**	**2,178**	**-1,460**	**-1,547**
D. Total capital account & I.M.F	**16,092**	**12,821**	**10,870**	**9,927**
E. Total current account, capital account & I.M.F.	**9,841**	**-1,045**	**-512**	**-1,653**
F. Errors & omissions	—	**-1,248**	**-720**	**203**
G. Reserves & monetary gold	**-9,841**	**2,293**	**1,232**	**1,449**

Note: Figures are provisional for 1990-91 and quick estimates for 1991-92, made by the Reserve Bank of India.
* Excluding refinancing credits
+ Including India Development Bonds.
Source: Statistical Outline of India (Tata Services Limited)

B.O.P. also acts as a reflector of the standard of living of the people of that country (standard of living is measured by the demand and the capacity to produce).

Of particular interest to any businessman operating in the international market is the country's current account.

The current account reflects the financial transactions accruing on account of trade in goods and services.

Activity 3

i) Examine the exchange rate figures given in daily newspapers and explain the terms T.T. buying and selling rates.

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ii) Is there a difference in the two rates? Explain.

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1.5 BASIC MODES FOR ENTRY

Once a firm has taken the decision to enter into the field of international business it must analyse the basic strategies/methods of entry.

There are basically five different strategies available for entry into a foreign market. They are exporting, licensing, joint venture, manufacturing and management contracts.

Exporting

This is the most commonly used method for entering foreign markets. Commonly used in India, this method involves production of goods and services in the home country followed by distribution into foreign market. This method is commonly adopted by countries entering into the foreign market for the first time since it minimises the financial risks involved.

Licensing

When the company wants to protect its patent and trademark rights, it simply licenses the production of its product in the foreign market to another company in return for a fixed royalty. This is done when either the market has developed very fast or when export barriers have been erected, e.g. Parle soft drinks are licensed for production in middle eastern countries.

Joint Venture

When a company does not possess the capacity to analyse and handle a particular market, it enters into a joint venture.

The primary reason for sharing the control of the market is to protect itself against political and economic risks.

Joint ventures are increasingly seen in the world market because of this very reason. The other reasons for its existence and growth are:

a) When the company does not possess competent personnel to handle foreign market or when it is short of capital.

b) When a company feels that it would be to their mutual advantage to enter in joint venture because of specific resources possessed by the other partner (e.g. distribution network, knowledge of culture).

c) Where wholly owned activities are not permitted by the foreign governments.

Manufacturing

When the company moves along its life cycle (with reference to international business) it develops an international orientation. This motivates it to invest in foreign market and develop its own manufacturing and marketing systems within that market.

The primary reason for this is to reduce the additional costs involved in foreign marketing.

It has to pay no duties on products produced within a foreign country. The transportation cost is also minimised. It can take advantage of low cost labour and thereby minimise its production costs. In an effort to become competitive in the world markets increasing number of firms are undertaking this mode of entry. Nestle India and Hindustan Lever are illustrations of this mode of entry.

Management Contracts

A country may not possess the required managerial or technical talent and therefore may not be in a position to exploit its imported assets procured in aids or assets maintained by an expropriated company.

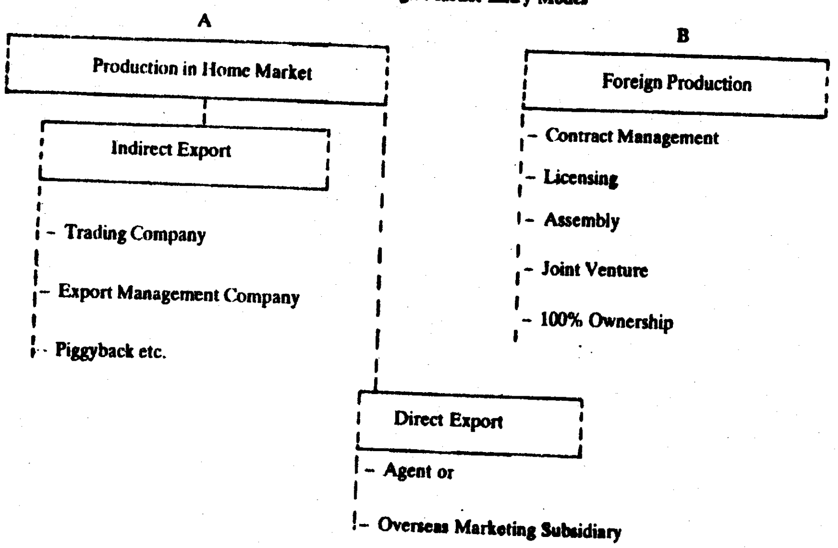
In such a situation a company may sign a management contract with such a country's government/company to manage the assets till such time that it has available to it the resources necessary for managing the assets. e g. foreign companies managing refineries/petro-chemical plants in middle east, East India Hotels/Oberois of India taking management contracts for managing hotels in Egypt, Australia etc.

This is not a common phenomena in international business but for some technologically oriented firms it does represent an entry mode.

Vern Terpstra has given a proposition on basic modes of entry in light of production i.e., where does the production take place. His proposition may be understood from the following figure:

Exhibit 7

Alternative Foreign Market Entry Modes



Source: International Marketing by Vern Terpstra

All these are methods for entering foreign markets. But before this it is necessary to understand the nature of marketing task involved.

1.6 NATURE OF INTERNATIONAL MARKETING

The task of marketing manager is to mold the endogenous and exogenous factors in the light of opportunities and threats facing the company.

These endogenous and exogenous factors might again be controllable or uncontrollable. Therefore the manager is basically framing his controllables in the light of uncontrollables.

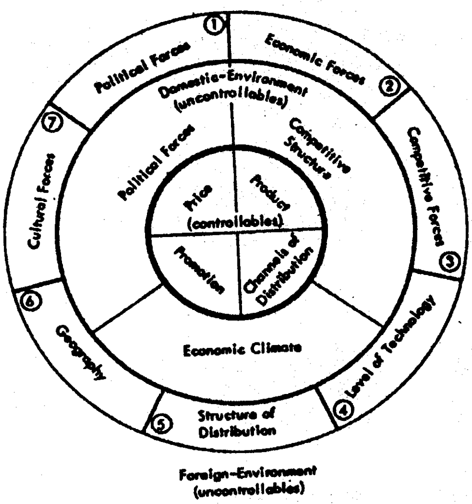
The controllables for a marketing manager include the four P's of marketing and resources within the company. Whereas the uncontrollables can again be classified into domestic uncontrollables and foreign uncontrollables.

While in national marketing the manager is involved in co-ordinating the domestic controllables and uncontrollables, in international marketing a new set of uncontrollable variables enter into the fray. They include the economic, politic and environmental conditions prevalent in the foreign country.

These new variables complicate the task of international marketing and magnify the risks involved. For an international businessman, this means that he has to be alert in the changes taking place in both his home country and in the country he has business interests in.

Phillip Cateora and John M Hess have shown the interplay of these controllables and uncontrollables with the help of a Exhibit which has been presented below:

Exhibit 8
The International Marketing Task



Source : Phillip R. Cateora and John M. Hess

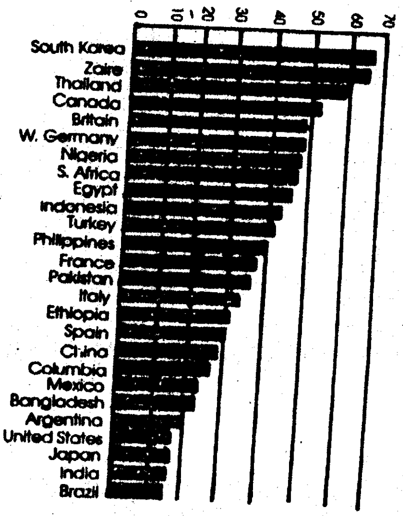
1.7 ROLE OF GOVERNMENT IN FOREIGN TRADE

Just as management is responsible for the decision of going into international business, similarly the government economic and foreign trade policies are responsible for encouraging or discouraging foreign trade.

Exhibit 9

TRADE A country's tendency to trade will depend, in part, on its size. Small countries usually produce fewer goods, and rely on exports to pay for necessary imports. Bigger countries tend to be more self-sufficient. The three countries with the highest proportion of trade to GNP all have populations of around 50m or less; the countries with the lowest ratio of trade to GNP have more than 100m people. But the propensity to trade will also depend on a country's import restrictions, its exchange-rate policy, and the incentives to export. Brazil (although it is changing) and India are two of the most protected economies in the world, and thus sit at the bottom at the table. Nigeria and Indonesia have high ratios of trade to GNP, given their populations. South Korea, at the top of the list, has had the fastest economic growth in the past 20 years of those in the chart.

Trading nations*
Exports plus imports as % of GDP, 1988



Source: World Bank
*Population over 25 m

A government can either adopt an outward approach or an inward approach while deciding about its foreign trade policy.

An outward approach means that the government policy neither favours production for domestic markets nor for exports. It makes no discrimination against imports not does it promote export. This kind of an approach is followed by the growing and already developed economies. United States of America provides an example of this approach as followed by government. More and more governments are adopting this approach because they have realised the benefits arising out of free trade.

The inward approach is just the opposite. A government following an inward approach in its foreign policy favours import substitution and provides motivation for domestic production. The economic objectives followed by such government are geared towards the objective of self-sufficiency. India is well known for being a strong advocate of this approach.

It is possible to classify policies followed by various governments on this basis.

Exhibit 10
Asian Countries and Policies followed

Outward Oriented		Inward Oriented	
Strongly	Moderately	Strongly	Moderately
Hongkong	Thailand	Burma	Sri Lanks
Japan			Pakistan
Singapore			Indonesia
South Korea			Phillipines

Source: International marketing and Export Management Edwin Duerr et al.

India's policy currently reflects a change towards outward orientation. How strong this orientation will develop depends largely upon how foreign traders look at India and time span of political stability.

The inward oriented societies may choose to disallow the principle of free foreign trade to apply through the use of its foreign policies. A number of reasons have been forwarded for disallowing free foreign trade. They range from national defence to protection of infant industries and home market. Sometimes reasons such as encouragement of capital accumulation, maintenance of employment have also been forwarded. Whatever be the reason, it can be pointed out that the consumer generally loses because of inward orientation. He has to pay higher price and he is offered a smaller range of products to choose from. The production system in such economies tend to become inefficient because of the protection afforded. Thus as pointed out earlier the standard of living and balance of payment of such economies is bound to decline. Economists have accepted the arguments of national defence and protection of infant industries but how long and to what degree should the principle of free trade be disregarded has not as yet been agreed upon.

In order to implement its foreign trade policies, to encourage or discourage foreign trade, the governments of such economies have at their disposal various instruments. Depending upon the element of foreign trade as also the industry or product, the government wishes to control, it deploys these instruments in form of barriers and incentives.

Let us view these barriers and incentives in the light of specific elements that a government wishes to control.

Import Discouragement

When the government wishes to discourage imports of any commodity, it creates barriers against the import of this commodity and at the same time uses incentives to promote import-substitution.

The chief legal barriers that a government can utilise are tariffs, quotas and boycotts. The government can also create barriers in form of exchange controls and psychological hardships e.g. French govt. deciding that Japanese VCRs entering French market would have to be checked individually by customs. The government may simply impose very high rates of taxes on the import of such commodities, thus making them unreasonable buys in the domestic market. Similarly, the government may use quotas to specify the quantity (in terms of number of units or money value) that can be imported. Boycott refers to the absolute ban on import of these items. e.g. India's import policy specifically lists a few items which are banned for imports.

The government may further use exchange controls and psychological barriers to prevent imports. Exchange control refers to the availability of foreign exchange and the cost at which these funds are made available. The government may use each of these two variables to control imports. In many countries it has been noticed that the import procedures are long and cumbersome. There may be specifications and subspecifications. All this add to the harassment value and discourages imports.

Besides the government may use health grounds to prevent import of certain commodities. Thus the government use of psychological barriers can also be very effective.

When a government prevents imports of certain essential commodities, it must create production facilities within the country. This is done on the principle of import substitution.

Thus, government may add to their long list of rules, a rule like – goods cannot be imported unless the importer can prove that the good is not available within the country.

Such rules force potential importers to consider manufacturing in the domestic markets thus giving boost to these industries.

Import Encouragements

Normally import encouragements are not witnessed in inward-oriented societies. However when the orientation shifts from inward to outward, we see measures for import encouragements on the bloom. The first signs are the relaxation on import of capital goods, allowing of foreign investments to enter followed by imports of consumer goods.

When the government of such economies feel the need to promote free trade they gradually start minimising their long import restriction both in number and in terms of the implications.

More and more quotas are released for imports, exchange controls are minimised and psychological barriers removed. Some advanced countries like Canada and Japan have importers' association which develop links with other countries and give them specific information regarding how certain commodities and products can be imported to their country.

Export Encouragements

When a government wishes to encourage exports it offers to its firms various cash and non-cash incentives.

Direct or indirect cash incentives are promoted. Direct cash incentives may be on the volume of trade carried out by a firm or value of foreign exchange earned by a company. It may be fixed or in moving terms.

Indirect cash incentives take the form of differential tax structure and lower interest rates for working capital finance required for exports. In India, the differential tax structure is used. All income on account of foreign trade is tax free (subject to certain conditions). Lower interest rates to develop the export base is also another means of providing indirect cash incentives.

Besides the cash incentive, several non-cash incentives are also offered by such government. These include import facilities, and establishment of free trade zones within the country, permissions for selling a portion of their production in domestic markets and many other such measures.

Export Discouragement

Export discouragement is a phenomena not seen in the modern world because it has become necessary for every country to maintain its income for paying for its imports.

However virtually every country has allowed for ban on export of certain commodities which may be essential or of historical significance. Thus in India there is a ban on the export of antiques which are over a hundred years old. At various times, there has been a ban on export of onions from India to minimise price rise in domestic markets.

Besides these reasons for banning the export of a product, countries unanimously may agree to ban the trade of particular goods on humanitarian/environment grounds. Ban on ivory trade and animal skins to protect wild life are few other examples.

1.8 INDIA'S FOREIGN TRADE

The history of Indian foreign trade begins with her independence. Independent India had a balance of Rs.1,736 (in sterling pounds) crores to the credit of her balance of payment. By 1950 the balance had dwindled to Rs.911 crores because of the haste, demonstrated by the government, to bring about development.

Since independence India has adopted socialistic pattern for her society and aimed at achieving the self-sufficiency objectives. All her economic policies were geared to accomplish these objectives.

So far as the foreign trade is concerned, India was recognised as a major agricultural producer. But because of the interplay of the objective of self-sufficiency the government decided to promote industrial development. The major reason for the rise in imports until the Third Five Year Plan were the pursuance of these objectives and the wars that India fought in 1962 and 1965. Thus while our imports grew in value the exports could not keep pace. The exports were mainly agricultural produce with little or no value added activity being performed on them. The industrial India had not even started producing adequately for domestic demand therefore the question of non-traditional goods being in India's basket for export was non-existent. Besides this the fact that industrial world had developed synthetic substitutes for major Indian produce like jute and the stagnant agricultural production were responsible for the poor performance. Countries which had become independent during the same period also started to follow similar patterns and objectives. Protectionism was being practised and drop in the export brought about negative balance of payments in her earlier years. This can be viewed from the exhibit given below:

Exhibit 11

Indian Foreign Trade in the Planned Period

	Imports	Exports	Balance of Payment (Deficit)
1st Plan (1951-52-1955-56)	723	609	-114
2nd Plan (1956-57 – 1960-61)	985	624	-361
3rd Plan (1961-62 – 1965-66)	1241	752	-489
Annual Plan (1966-67 – 1968-89)	1991	1238	-753

The Fourth Five Year Plan recognised the necessity for controlling the balance of payment deficits. This was reflected in the incentives which were given for the first time to promote foreign trade. The green revolution and a recession in the Indian economy led to a positive balance of payment situation in 1972-73 which was again repeated in 1976-77. However the overall balance of payment situation has remained bleak during the decade as can be seen in the exhibit.

Exhibit 12

Indian Foreign Trade During 1970's

Period	Import	Export	Balance of Trade
	Rs. crores		
1969-70	1582	1413	-169
1970-71	1634	1535	-99
1971-72	1825	1608	-217
1972-73	1867	1971	+104
1973-74	2955	2523	-432
1974-75	4519	3329	-1190
1975-76	5265	4043	-1222
1976-77	5074	5149	+72
1977-78	6025	5404	-621
1978-79	6764	5694	1072

Although the exports grew during this period it did not outgrow the growth in imports mostly because the import bill increased with the increase in the oil prices announced by OPEC and the liberal import policy followed by the government.

The next decade marked a further rise in the government awareness regarding foreign trade. In 1982-83 the government announced an integrated export-import policy. Prior to this the government had been announcing the export and import policies separately. But after 1982-83 it decided to announce it as a single integrated annual policy. Later the term of the import -export policy was extended to three years. The term of the import-export policy has been further extended to five years and the current policy is for the period 1992-97. The government policy has given considerable emphasis to promoting exports. They have further liberalised imports.

Exhibit 3
Excerpt from Approach to Eighth Five Year Plan
Exports and International Trade Policy

109. The mounting fiscal deficits and their effect on aggregate demand are part of the reason for the pressure on balance of payments. Sharp deterioration in net invisible earnings, reduction in concessional borrowing and some upsurge in bulk imports have contributed to this process. Increase in imports related to production of non-essential consumption goods has added to the pressure on imports. Prudence requires that further increase in foreign borrowings, especially the recourse to loans of shorter maturity and on harder terms, be restrained severely and steps taken to accelerate the uilisation of aid in the pipeline (which is on much softer terms). The thrust of liberalisation should also shift towards improving the technology and efficiency of the intermediate and capital goods industries, which is desirable from every point of view reducing costs of domestic manufacture, increasing the competitiveness of domestic industry on a wider range than at present and building the base for greater self-reliance.

110. The rate of growth in export earnings in recent years (17 percent in dollar terms and 11 percent per annum during 1986-90) has been impressive. But it has to be stepped up even higher to bring down the BOP deficit to manageable levels. Efforts to expand and diversity exports both by products and markets must continue.

111. The strategy for export growth woud include:

i) greater attention to expanding export of labour-intensive manufactures which have emerged as dynamic elements in our trade. At the same time, diversification into a wider range of products such as software and other skilled-based services;

ii) strengthening of institutional infrastructure for exports such as Export Houses, Export Promotion Councils, specialisation in both product and selected markets; as also modernisation of other trade promotional institutions and elimination of procedural bottlenecks;

iii) rationalisation of incentives, speedy delivery of raw materials, equipment and components, related to export production – be they indigenous or imported, and promptness in provision of export assistance;

iv) supportive exchange rates and demand management and

v) adequate investment provision for infrastructure where there is a high concentration of export production industry.

112. Tourism has demonstrated its potential in contributing substantially to foreign exchange earnings. The circumstances are propitious for a rapid expansion of tourism. Tourism industry does not encounter protectionist barriers. It is today equipped with a reasonable infrastructural base and is poised for further faster growth. The further expansion of tourism should be achieved mainly through the private sector. The state can contribute by planning broad strategies of development, providing essential infrastructure, and devising effective regulatory mechanisms to protect the interests of industry, the consumer and environment.

113. International trading environment is undergoing rapid transformation. Protectionism is growing and multilateralism is under pressure. The inequity of the present international trading system from the viewpoint of developing countries is sought to be perpetuated. Moreover, in the name of the strengthening of the trading system, new linkages are sought to be enforced through the multilateral trade negotiations.

114. India's trade policy will have to be fashioned to meet these challenges. Our efforts to preserve the multilateral and non-discriminatory character of the trading system must continue. In keeping with our development, trade and financial needs, we should prepare ourselves to play an active role in the international trading system, consistent with our national objectives. The gradual shift from quantitative controls to tariffs and technological leap frogging might facilitate this process. Our resistance to introduction of new linkages intended to circumscribe the autonomy of development policies must continue with renewed vigour. We should strengthen our cooperation with the like-minded developing countries if forging coordinated approach and negotiating positions in the multilateral fora.

115. While the freedom to pursue autonomous development policies must be jealously guarded, enhancement of trade and economic cooperation among developing countries must continue to be a major aim of our external economic policy. Our ability to realise these objective will be, in the last analysis, determined by the strength and productivity of our industry, agriculture and infrastructure.

The principal export and import scenario of India with reference to commodities in the past three years vis-à-vis 1980-81 and 1970-71 can be seen as under:

Exhibit 14
Principal Exports

	1991-92*	1990-91	1989-90	1980-81	1970-71
	Rs. crores				
Agriculture & allied	**7,638**	**6,019**	**4,571**	**2,057**	**487**
Of which:					
Coffee	310	253	343	214	25
Tea	1,132	1,075	905	426	148
Oilcakes	871	625	546	125	55
Tobacco & manufactures	377	263	175	141	33
Cashew kernels	668	441	368	123	57
Spices	370	233	247	111	39
Rice	755	440	427	224	5
Fish & preparations	1,347	960	687	213	31
Raw cotton	316	846	128	165	14
Ores & minerals	**2,281**	**1,740**	**1,380**	**414**	**164**
Of which:					
Iron ore	1,432	1,050	928	303	117
Manufactured goods	**32,384**	**23,319**	**20,310**	**3,747**	**772**
Of which:					
Cotton yarn, fabrics & made-ups	3,209	2,100	1,480	408	142
Garments	5,411	4,012	3,224	550	29
Jute yarn & manufactures	387	300	298	330	190
Leather & manufactures	3,076	2,566	1,951	337	72
Handicrafts	8,346	6,167	6,285	952	73
Of which					
Germs & jewellery	6,750	5,247	5,296	642	43
Chemicals & allied products	3,677	2,345	1,981	235	36
Engineering goods	5,107	3,809	3,321	874	198
Mineral fuels & lubricants	**1,022**	**938**	**697**	**28**	**13**
Total (incl.others)	**43,978**	**32,553**	**27,681**	**6,711**	**1,535**

* Provisional.

Exhibit 15

Principal Imports

	1991-92*	1990-91	1989-90	1980-81	1970-71
	Rs. crores				
Cereals and preparations	141	182	378	10[illegible]	213
Petroleum and products	13,129	10,816	6,274	5,264	136
Edible oils	240	326	211	677	23
Chemical elements & Compounds	3,523	2,289	2,135	358	68
Medical & Pharmaceutical products	456	468	272	85	24
Fertiliser & fertiliser materials	2,259	1,766	1,777	818	86
Paper & board and mfrs.	488	456	358	187	25
Iron & steel	2,154	2,113	2,305	852	147
Non-ferrous metals	840	1,102	1,253	477	119
Capital goods	10,394	10,465	8,831	1,910	404
Of which:					
Metal manufactures	n.a.	302	271	90	9
Electrical machinery	n.a.	1,702	1,921	260	70
Other machinery	n.a.	4,240	3,532	1,089	258
Transport equipment	n.a.	1,670	1,526	472	67
Pearls, precious & semiprecious stones	4,822	3,738	4,242	417	25
Total imports (incl. Others)	47,813	43,193	35,416	12,549	1,634

* Provisional

For 1989-90 and 1990-91, capital goods include project goods.

Thus India's thrust commodities and countries can be outlined as below:

Exhibit 16

Thrust Markets

Africa	America	East Asia	South Asia	East Europe	West Europe	West Asia and North Africa
Zimbabwe	United States	Japan	Iran	Russia	United	United Arab
Kenya	of America	Republic of		Czechoslo-	Kingdom	Emirates
Mauritius	Canda	Korea		vakia	Federal	Saudi Arabia
Ethopia	Brazil	Peoples			Republic of	Kuwait
Cameroon	Argentina	Republic of			Germany	Egypt A R
Zaire	Mexico	China			France	Iraq
	Trinidad and	Australia			Italy	Bahrain
	Tobago	Malaysia				Oman
	Cuba	Indonesia				Jordan
						Morocco
						Tunisia

Source: Developed by Indian Institute of Foreign Trade

Exhibit 17

Thrust Products

- Basic Chemicals
- Capital Goods and Consumer Durables
- Fabrics, price goods and make up
- Leather and Leather manufacturers with an emphasis on the latter
- Iron Ore.
- Handicarft and Jewellery
- Marine product specially in value added forms
- Processed foods including fruits and juices
- Meat and Meat product and fresh Veg
- Projects and Services
- Readymade Garments
- Tea, specially in packaged and value added forms
- Woollen fabrics and knitwear

Source: Developed by India Institute of Foreign Trade

It is also necessary to monitor the county's foreign exchange reserves in this context.

Exhibit 18

Exchange Reserves

	Reserves (US $ Bn)		% share in world total		import cover (Months)
	Sept. 1991	Dec. 1980	Sept. 1991	Dec. 1980	Sept. 1991
World	**668.6**	**321.3**	**100.0**	**100.0**	**2.3**
Developed regions					
Of which:					
Denmark	7.9	3.4	1.2	1.1	3.0
France	34.5	27.3	5.2	8.5	1.8
Germany	61.2	48.6+	9.2	15.1+	1.9
Italy	56.9	23.1	8.5	7.2	3.8
Japan	69.9	24.6	10.4	7.7	3.6
Switzerland	25.5	15.7	3.8	4.9	4.6
U.K.	40.4	20.7	6.0	6.4	2.3
U.S.A.	63.7	15.8	9.5	4.9	1.5
Developing regions					
Of which:					
India	1.9	6.9	0.3	2.2	1.1
Bangladesh	1.0	0.3	0.1	0.1	3.3
Brazil	6.2	5.8	0.9	1.8	4.3
China	40.9	2.5	6.1	0.8	8.5
Indonesia	8.5	5.4	1.3	1.7	4.1
Korea, Rep.	13.9	2.9	2.1	0.9	2.1
Mexico	16.4	3.0	2.5	0.9	5.6
Pakistan	0.5	0.5	0.1	0.2	0.7
Philippines	2.4	2.8	0.4	0.9	2.3
Saudi Arabia	11.6	23.4	1.7	7.3	n.a.
Singapore	31.8	6.6	4.7	2.0	5.8
Thailand	17.0	1.6	2.5	0.5	5.4
Venezuela	9.3	6.6	1.4	2.1	12.7

* Total of reserve position in IMF, foreign exchange and SDRs.

\+ Relates to former West Germany.

3

Exhibit 19

TRADE WITH SELECTED COUNTRIES

		Imports from Rs. crores	%	Exports to Rs. crores	%	Trade Balance Rs. crores
O.E.C.D.	1970-71	1,042	63.8	769	50.1	- 273
	1989-90	20,224	57.1	14,743	53.3	- 5,481
	1990-91	23,310	54.0	17,428	53.5	- 5,882
EEC	1970-71	320	19.6	282	18.4	-38
	1989-90	11,736	33.1	6,906	24.9	- 4,830
	1990-91	12,680	29.4	8,951	27.5	-3,729
Belgium	1970-71	12	0.7	20	1.3	+8
	1989-90	2,696	7.6	1,209	4.4	-1,487
	1990-91	2,718	6.3	1,259	3.9	-1,459
France	1970-71	21	1.3	18	1.2	-3
	1989-90	1,612	4.6	638	2.3	-974
	1990-91	1,304	3.0	766	2.4	-538
Germany (West)	1970-71	108	6.6	32	2.1	-76
	1989-90	2,750	7.8	1,778	6.4	-972
	1990-91	3,473	8.0	2,549	7.8	-924
U.K.	1970-71	127	7.8	170	11.1	+43
	1989-90	2,974	8.4	1,602	5.8	-1,372
	1990-91	2,894	6.7	2,128	6.5	-766
Non-EEC Australia	1970-71	37	2.3	25	1.6	-12
	1989-90	887	2.5	335	1.2	-552
	1990-91	1,464	3.4	321	1.0	-1,143
Canada	1970-71	117	7.2	28	1.8	-89
	1989-90	454	1.3	264	1.0	-190
	1990-91	559	1.3	281	0.9	-278

		Imports from		Exports to		Trade Balance
		Rs. crores	%	Rs. crores	%	Rs. crores
Japan	1970-71	83	5.1	204	13.3	+121
	1989-90	2,820	8.0	2,727	9.9	-93
	1990-91	3,245	7.5	3,039	9.3	-206
U.S.A.	1970-71	453	27.7	207	13.5	-246
	1989-90	4,260	12.0	4,474	16.2	+214
	1990-91	5,245	12.1	4,797	14.7	-448
OPEC	1970-71	126	7.7	99	6.4	-27
	1989-90	5,074	14.3	1,841	6.7	-3,233
	1990-91	7,041	16.3	1,831	5.6	-5,210
Iran	1970-71	92	5.6	27	1.8	-65
	1989-90	390	1.1	132	0.5	-258
	1990-91	1,018	2.4	141	0.4	-877
Kuwait	1970-71	6	0.4	16	1.0	+10
	1989-90	1,160	3.3	198	0.7	-962
	1990-91	363	0.8	74	0.2	-289
Saudi Arabia	1970-71	24	1.5	15	1.0	-9
	1989-90	1,448	4.1	429	1.5	-1,019
	1990-91	2,899	6.7	419	1.3	-2,480
Eastern Europe	1970-71	220	13.5	323	21.0	+103
	1989-90	2,990	8.4	5,336	19.3	+2,346
	1990-91	3,337	7.8	5,819	17.9	+2,442
U.S.S.R.	1970-71	106	6.5	210	13.7	+104
	1989-90	2,038	5.8	4,463	16.1	+2,425
	1990-91	2,548	5.9	5,255	16.1	+2,707
Developing countries*	1970-71	239	14.6	305	19.9	+66
	1989-90	6,031	17.0	4264	15.3	-1,785
	1990-91	7,965	18.4	5465	16.8	-2,500
Asia	1970-71	54	3.3	166	10.8	+112
	1989-90	4,452	12.6	3,634	13.1	-818
	1990-91	6,033	14.0	4,665	14.3	-1,368

Note: Figures under % show the % share of each economic region or country in India's total imports and exports respectively. Data for only some countries are shown under the economic regions.

* Excluding members of OPEC

1.9 REGIONAL ECONOMIC GROUPINGS

A new arrangement is emerging in economic field since World War II wherein several countries together decide to engage in an economic co-operation with the objective to use their resources more effectively and to provide larger markets for member countries. Different forms of regional economic co-operation can be classified as follows:

The Free Trade Area: It is the least restrictive & loosest form of economic integration. In a free trade area, all barriers to trade among member countries are removed. No custom duties are leviable for trade within member countries. However, each member country retains the right to frame its own tariff structure vis-à-vis non-members. The most well known of the free trade areas is the European Free Trade Association (EFTA).

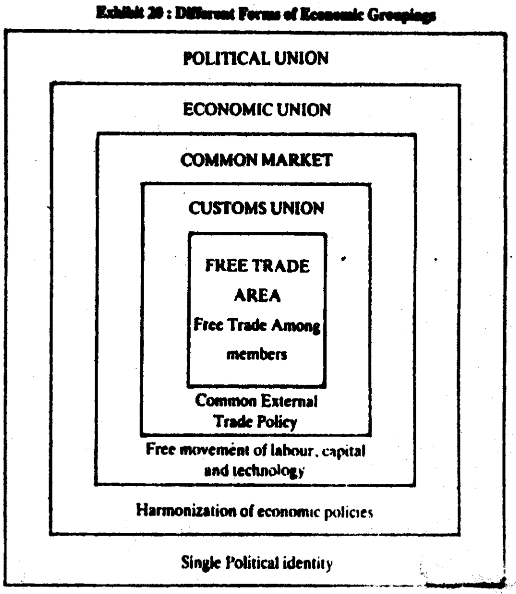
The Customs Union: The customs union is one step further towards economic integration. Like in Free Trade Area, members of customs union do not have any trade barriers between them. Further, there is a common trade policy followed by all members with respect to non-members.

The Common Market: In addition to the features of a customs union, common market allows free movement of labour, capital & technology within member countries. Restrictions on cross border investment are abolished. The free movement of labour, capital and technology help in their most productive utilisation.

The Economic Union: This represents the most advanced stage of economic co-operation wherein the participating countries not only have no trade barriers within them and common trade barriers for non-members but also harmonize their monitary, fiscal, financial & taxation policies.

Political Union: The ultimate development of an economic union takes form of a Political Union where member countries decide to shed their national political status.

Exhibit 20 : Different Forms of Economic Groupings



Some major regional trade associations are described hereunder:

The European Economic Community (EEC):

Based on the treaty of Rome of 25th March 1957, the EEC came into being on 1st January 1958. The community has presently 12 member nations – Belgium, Denmark, France Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, U.K., Germany and has its head quarters at Brussels. The community has till 1992 functioned as a Customs Union and from January 1, 1993 has emerged as a common market of 340 million consumers. The ultimate objective of the community is to form an economic union latest by January 1, 1999 wherein there will be a European central bank & a common currency.

While the single market reforms have been a success, the crucial second phase of economic union is not moving in a smooth manner. The Maastricht Treaty which envisages not only a single European Currency but also a framework for co-ordinating defence and foreign policies, suffered a setback when Denmark rejected it in a referendum on June 2, 1992 by a narrow majority. Some boost was received later, however, when France approved the treaty in the nation wide referendum, though by a very narrow margin. Ireland also gave endorsement to Maastricht in its June 1, 1992 referendum. To become law, Maastricht must be approved by each of the 12 member states, either by legislative vote or by referendum.

Exhibit 21: 1992 SCORECARD

Sector	**Objectives**	**Accomplishments**
Air Lines	Total open skies policy by 1993, including freedom of pricing & entry of new airlines	Free pricing and licensing of new international airlines by 1993. National markets closed until 1997.
Telecommunications	Deregulation of equipment and services except for phone calls, by 1993.	Open competition in equipment services by 1993. Target for mid-1990s deregulation of cross-border calls.
Automobiles	Ending Europe-wide quotas on Japanese cars by mid-1990s. Transplants not included in quotas.	National quotas in effect until 2000. Japanese transplants included in quotas.
Financial Services	Deregulation of banking, insurance and investment services by 1993	Banking fully liberalised by 1993 insurance by mid-1994. Investment services to open from 1995 to 1999.
Borders	Removal of all customs barriers for products and people by 1993	Barriers to products removed by Free circulation of people in most countries by 1993.
Social Policy	Heavy regulations on working times, subcontracting and workers' rights	Mostly blocked by British opposition.

Source: Business Today

The European Monetary Systems (EMS):

Founded in March 1979 to control inflation, protect European trade from international disturbances & ultimately promote convergence between the European economies. The Exchange Rate Mechansim (ERM) is run by the finance ministries & Central banks of the EC countries on a day-to-day basis; monthly reviews are carried out by the EC Monetary Committee (finance ministries) and the EC Committee of Central bankers. Members are obliged to restrict the fluctuations in the value of their currencies to a variation 'band', usually at 2.25% (though this may be widened to 68% on a country's initial joining) higher or lower than a central rate established by comparing all the currencies in the ERM & the European currency unit. If a currency reaches its top or bottom limits, central banks are obliged to buy or sell currency on the foreign exchanges. Further stabilization measures would involve adjustment of national interest rates, central bank borrowing from other central banks or withdrawal of reserves from the European Monetary Co-operation fund. The adjustment of last resort is re or devaluation.

The European Community received another setback in later part of 1992 when after a turmoil in ERM & a big fall in value of Pound Sterling, Britain withdrew from ERM on September, 16th 1992.

European Free Trade Association (EFTA):

The EFTA was established by the Stockholm Convention of 1959. EFTA is a 'Free Trade Area' and the present member countries are – Austria, Finland, Iceland, Norway, Sweden, Switzerland & Liechtenstein.

A larger European Economic Area (EEA) is also being envisaged by having an agreement between the EC & EFTA with eventually seven EFTA countries becoming members of EC. This, however, has received a setback when in end 1992 Switzerland in its referendum, rejected the membership of the planned European Economic Area.

The North American Free Trade Agreement (NAFTA):

The U.S. President & the leaders of Canada & Mexico participated in a ceremony in October 1992 in Texas to spotlight on an agreement designed to create the World's largest & richest free trade zone. "This meeting marks a turning point in the history of **our three countries," Mr. Bush said. Mr. Carlos Salinas De Gortari, President of Mexico** said, "We can all win with the agreement because it will lift the economies of all three nations." The 2,000 page document was signed by the trade ministers of the three countries.

NAFTA would create the World's largest free trade area by removing all trade barriers among the 3 countries over 15 years.

Latin American Integration Association (LAIA)

The Association took over from the Latin American Free Trade Area (LAFTA) on 1st January 1981 which was created in 1960 to further trade between the member states & promote regional integration. The LAIA has following members: Argentina, Bolivia, Brazil, Chile Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay & Venezuala. The Association's head quarter is in Uruguay.

Exhibit 22

CENTRAL AMERICAN TRADE BLOC SOON

Central America is moving towards creating an economic bloc of its own to compete with the world's other trading groups & profit from regional trade.

We must form a bloc or we are going to be dead economically," said Sonia Maria Gonzalez, who works for the Guatemalan Govt. to attract investment. "You can't have Asian Countries together & European countries together & then have this tiny country of Guatemala with only 9 million people."

Central American nations hope a larger trading unit will give them clout with big ones like the E.C & the proposed NAFTA.

Another advantage would be to ease internal distribution of such local wares as Costa Rican dairy products, Salvadoran plastics & Guatemalan rubber, pharma, glass & electrical appliances.

The region exports Coffee, Sugar, Cotton, Tobacco, & Seafood. It imports virtually all of its oil, automotive parts, heavy machinery & advanced technology.

A Central American common market was established in 1963, but became mired in political &economic problems & had fallen apart by the late 70's.

What is different now is that we are all taking about the same language, says Juan Luis Miron, Guatemala's economy minister, "We are all talking about free enterprise."

"In the 1960, we are talking about an extreme left and an extreme right, we had pro-American & pro-Russia, now we have the same ideological positions & the same ways of doing business. "

President Rafael Leonardo Calejas of Honduras said Central American countries are working towards "a policy of common interest & integration with the Caribbean countries" to open the European market to regional products.

Central American economic ministers have established minimum tariffs within the region of 5% & maximum of 2% to be effective by the end of year , replacing duties of upto 75%.

In M, the president of Guatemala, Honduras & El, Salvador agreed to lift tariffs on 10,000 items by the end of the year and work towards a customs union. Tariffs have been dropped throughout Central America on about 1,600 agricultural products.

In July, 1991, Costa Rica, El. Salvador, Guatemala, Honduras & Nicaragua agreed to further integration with an eye towards the U.S. enterprise for the Americas initiative, a programme introduced in 1990 that allows wider access to U.S. markets.

"We benefit in practical business terms, as well as in foreign policy terms, from having more prosperous neighbours," peter Whitney of the State Deptt.'s bureau of inter–American affairs said at a trade meeting last year in Guatemala city.

"Sooner or later we are going to be absorbed into the U.S. big trading bloc, since we are the little dwarfs on the side," said Jorge Skinner Klee, a Guatemalan Congressman. "It is better to increase our bargaining power by integrating and then try to cut a deal with the big boys."

Johanna Fiallos, head of a Nicaraguan business group said, "Positive changes are taking place throughout the region, Integration will result in more competition... Higher quality products & better service."

At their meeting last July, the regional presidents decided to spend more in infrastructure, including a rail road network & improving the Atlantic port of Santo Tomas shared by El. Salvador, Guatemala and Honduras.

Bilateral treaties have been signed since to expand trade within the regions now at $ 640m a year and there is a talk of common currency.

Immigration departments are considering a regional passport similar to the visa-free systems in the E.C.

"If we want to face the external market as a strong whole, we will need to break down our own internal barriers first," said Otto Becker, head of Guatemala's business associations.

(Source: Economic Times: July 3rd, 1992)

Latin American Economic System (SELA):

SELA was created by 25 Latin American & Caribbean countries meeting in Panama on 17th October, 1975. Surinam joined later in 1979. The system provides member countries with permanent institutional machinery for joint consultation, co-ordination, co-operation & promotion in economic & social matters at both intraregional & extraregional levels. The head office of SELA is based in Caracas, Venezuela.

Caribbean Community (CARICOM):

The Treaty establishing the Caribbean community, including the Caribbean common market and the Agreement establishing the common External Tariff for the Carribean Common Market was signed by the Prime Ministers of Barbados, Guyana, Jamaica & Trinidad & Tobago at Chaguaramas, Trinidad, on 4th July 1973 and entered into force on 1st August, 1973. The Caribbean community has 3 areas of activity (I) economic Co-operation through the Caribbean common market; (II) Co-ordination of foreign policy; (III) functional co-operation in areas such as health education and culture, youth & sports, science & technology and tax administration.

The Caribbean Common Market provides for the establishment of common external tariff, a common prortective policy and the progressive co-ordinations of external trade policies; the adoption of a scheme for the harmonization of fiscal incentives to industry; double taxation arrangemets among member countries; the co-ordinating of economic policies & development planning; and a special regime for the less developed countries of the community. In 1990 a target date of 1994 for the creation of common market was agreed.

Members: Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Greneda, Guyana, Jamaica, Montserral, St. Kitts-Nevis, Saint Lucia, St. Vincent and the Grenadives and Trinidad & Tobago.

Arab Common Market (ACM)

The Arab Common Market came into operation on 1st Jan. 1965. The agreement reached on 13th August, 1964 and open to all the Arab League states, has been signed by Iraq, Jordan, Syria & Egypt. The agreement provides for the abolition of customs duties on agricultural products & natural resources within 5 years by reducing tariffs at an annual rate of 20%. Customs duties on industrial products are to be reduced by 10% annually. The agreement also provides for the free movement of capital & labour between member countries, the establishment of common external tariffs, the co-ordination of economical development & the framing of a common foreign policy.

Association of South-East Asian Nations (ASEAN):

The ASEAN was formed by the government of Indonesia, Malaysia, The Philippines, Singapore & Thailand through the Bangkok Declaration which was signed by Foreign Ministers of ASEAN countries on 8th August, 1967. Brunei joined in 1984.

The main objectives of the association are to accelerate economic growth, social progress & cultural development, to promote active collaboration & mutual assistance in matters of common interest, to ensure the stability of the South-East Asian region and to maintain close co-operation with existing international & regional organizations with similar aims. The central secretariat for ASEAN is located in Jakarta, Indonesia & is headed by the Secretary General.

Central African Customs and Economic Union (UDEAC):

By virtue of the treaty signed in Brazzaville (Republic of Congo) on December 4, 1964 the UDEAC was formed. The member countries are Cameroon, Central African Republic, Congo/Brazzaville and Gabon.

In addition to being a Customs Union this Union hopes to achieve the status of an economic Union. In 1970 it had launched joint industrialisation programmes. The UDEAC has to its credit a common development bank, common external tariffs and a common investment code. It has also been successful in removal of trade barriers.

Economic Community of States of Central Africa (ECSCA):

On October 18, 1983 the ECSCA came into being by virtue of treaty of Liberville. It has 10 members which include Cameroon, Central African Republic, Congo/Brazzaville, Gabon, Equitorial Guinea, Rwanda, Sao Tome Principe, Zaire, Chad and Barundi. It was hoped that this union would become a true economic union with removal of trade barrier, and the development of common external barriers and trade policy, and free movement of resources.

It aimed at achieving this by 1995 within 3 stages of 4 years each. It also put deadlines to the minimum and maximum periods. The shortest period being 10 years and the longest being 20 years. The 1st stage aims at stability of fiscal and customs rules while the 2nd stage aims at setting up a free trade zone and the 3rd stage aims at creation of a formal customs union and common external tariffs.

Thus this union aims at not only promoting trade but also mutual co-operation among member nations.

Economic Community of Western African States (ECOWAS):

The ECOWAS came into being on 28th May, 1975. It, however, became effective only from 5th of November 1976. It had 15 members who include Benin, Burunia, Faso, Cape Verde, Gambia, Ghana, Republic of Guinea, Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. It was thus the largest agreement covering a population of approximately 124 million including 6 French speaking, 5 English speaking and 1 Portugese speaking countries, with such great diversity it was still hoped to achieve the objectives (common to any economic union) by 1994.

1.10 SUMMARY

To sum up the theory of relative advantage explain why a country indulges in foreign trade. However, even if the country realizes that it is advantageous to enter into foreign trade it must convert it into economic policies so as to motivate individual firms to enter into foreign business. These benefits have to be firm, specific and cannot be correlated with foreign trade.

India's current position and history of foreign trade goes back to time of its economic independence. Today India is at point where it must change its argument of self-sufficiency and move with agreement of foreign trade if it has to develop rapidly. This is validated by what has been happening in the world with reference to foreign trade. The most dominant and immediate movement that the world has been seeing is the EEC. Similar other movements are visible world over. They inlcude free trade areas, regional co-operation groups and economic unions. Even international bodies have come up to support this. They include the IMF and the World Bank. Legal environment its also developing for promoting International business and foreign trade. GATT or General Agreement on Trade and Tariff marks this.

1.11 SELF-ASSESSMENT QUESTIONS

I) Define the premise for the existence of International trade and business?

II) What are the reasons that promote international business concerns to invest in foreign lands?

III) Argentina and Brazil have decided to form an economic union. What would be the probable premise underlying this union? Analyse critically.

IV) For the purpose of scanning the environment certain variables may be used to reduce the span of the scan. Enumerate 6 such variables.

1.12 FURTHER READINGS

Philip R Cateora, John M Hess, *International Marketing*, 3rd edition, Richard D. Irwin, Inc.

Warren J Keegan, '*Multinational Marketing Management*',2nd edition, Prentice Hall of India.

Rajan Saxena and M C Kapoor, 1984, *International Marketing Concept*, *Techniques and Cases*, Tata McGraw Hill Publishing Co.Ltd.

1.13 APPENDIX : STATISTICS OF WORLD TRADE

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita ($)	Inflation (%)	GDP real growth (%)	Balance of trade ($m)
Argentina	32.00 (1)	2766.9	2862 (1)	4427.0	3.1	4234(1)
Bolivia	6.99	1098.6	724	16.0	2.8	57
Brazil	144.00	8512.0	2449	683.0	0.0	19182
Chile	12.80	756.6	2518	14.7	7.4	2219
Colombia	30.20	1138.9	1739	28.1	3.[illegible]	648
Costa Rica	2.90	51.1	2235	20.8	3.0	86
Ecuador	10.20	270.7	1477	58.3	12.8	589
El Salvador	5.10	21.4	955	19.7	1.6	305 (1,e)
French Guiana	0.09	91.0	-	4.0 (1)	-	337 (1,e)
Guatemala	8.70	108.9	1502	10.9	3.5	396 (1)
Guyana	0.72	215.0	995	40.0	3.7	21
Honduras	4.80	112.1	851 (1)	4.6	3.0	24
Mexico	82.70	1958.2	2588	114.0	1.1 (e)	1600
Nicaragua	3.62	147.9	819	33000.0	8.0	612
Panama	2.32	77.1	2229	0.3	25.0	177
Paraguay	4.04	406.7	1503	23.4	6.2	69
Peru	21.30	1285.2	1503	1191.0	7.1	122
Suriname	0.40	163.3	3420	30.0	2.2 (1)	119 (2)
Uruguay	3.10 (1)	176.2	2989	62.6	0.5	292
Venezuela	18.80	916.5	4544	35.5	5.7	1347
Canada	26.10	9976.0	-	4.0	4.5 (e)	8881
United States of America	246.30	9300.0	-	4.0	3.9 (n)	126780
Anguilla	0.01	0.1	3562 (1)	5.0	8.2	-
Antigua	0.08	0.4	3399 (1)	1.2 (1)	6.6	230 (1)
Aruba	0.07 (1)	0.2	-	-	-	-
Bahamas	0.23	13.9	11317	4.2 (1)	2.0	774 (1)
Barbados	0.25	0.4	4233	4.8	3.5	181 (1)
Belize	0.17	23.0	1138 (1)	0.3	7.6	61
Bermuda	0.06	0.1	18000 (1,e)	5.3	4.0 (1)	530 (2)
British Virgin Islands	0.02	0.2	9491 (1)	5.2	15.1 (1)	35 (1)
Cayman Islands	0.03	0.3	18239 (1)	5.2	10.0	10 (1)
Cuba	10.00 (2)	114.5	2238 (3,n)	-	3.7 (1,n)	-
Dominica	0.08	0.8	1550 (1)	1.7	5.6	24
The Dominican Republic	6.90	48.4	354	46.0	0.8	715
Grenada	0.10 (1)	0.4	1346 (1)	5.8	5.8	60
Guadeloupe	0.34	1.7	3600 (3)	3.5 (1)	-	938 (1)
Haiti	6.30	27.8	319 (e)	4.0	0.2 (e)	128
Jamaica	2.40	11.0	1388	8.8	1.9	395
Martinique	0.34	1.1	4761 (3)	3.6 (1)	-	905 (1)
Montserrat	0.01 (1)	0.1	3997 (1)	1.6	12.4	17
Netherlands Dependencies	0.20 (2)	0.8	7500 (1,n)	2.6	2.5 (1,n)	195 (1)
Puerto Rico	3.30	8.9	7762	2.8	5.2	2000
St Kitts Nevis	0.05	0.3	2119 (1)	1.0	4.0	24 (1)
St Lucia	0.14	0.6	1400 (1)	1.0	5.0	82
St Vincent	0.11	0.4	1210 (1)	2.0	3.0	99
Trinidad and Tobago	1.20	5.1	3636	7.7	4.0	25
Turks and Caicos Islands	0.01	0.4	3500 (n,e)	-	-	24 (3)
US Virgin Islands	0.11	0.4	9724 (2,n,e)	-	6.2 (2,n)	521 (2)

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (n) gross national product (GNP)

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita ($)	Inflation (%)	GDP real growth (%)	Balance of trade ($m)
Afghanistan	15.50	647.5	170 (1,e)	-	3.5 (3,e)	196
Australia	16.50	7682.3	15097	7.6	3.7	1136
Bangladesh	104.50	144.0	170 (n)	9.4	2.6	1444
Bhutan	1.35 (1)	47.0	150 (1)	-	6.7 (4)	63 (1,e)
Brunei	0.30	5.8	15390 (1)	2.0	2.2	800
Cambodia	6.70	181.0	-	-	-	200 (2,e)
China	1100.00	9597.0	227 (n,e)	18.5	11.2	5500 (e)
Fiji	0.74	18.3	908	11.7 (e)	2.5	54
Hong Kong	5.68	1.1	1058 (1)	7.4	6.0 (n)	5729
India	796.60	3287.6	330 (n)	9.4 (e)	1.7 (n,e)	7900
Indonesia	175.20	1919.4	450 (1,e)	8.0 (e)	2.1 (1,e)	5726
Japan	121.80 (1)	377.7	16136 (1,n)	0.7	3.8 (n)	94990
Korea DPR	21.90	123.0	-	-	2.5 (e)	530 (2)
Republic of Korea	42.00	99.1	4082	7.1	12.0	11450
Laos	3.90	236.8	141 (n)	-	8.0 (4,e)	130 (e)
Macao	0.44	0.0	5242	7.8	7.5 (e)	-
Malaysia	16.92	330.4	2046 (e)	2.5	7.4 (e)	5559
Maldives	0.20	0.3	405 (1,e)	4.0 (2)	8.7 (e)	65
Mongolia	2.04	1565.0	2140 (2,n)	-	-	-
Myanma	38.30	676.6	254 (1)	16.1	3.7 (1)	487
Nepal	18.30	147.2	159	9.0	4.5	96
New Zealand	3.29	268.7	9389	6.4	0.6 (n,e)	2015 (1)
Pakistan	105.41	804.0	362	8.8	5.8	2607
Papua New Guinea	3.60	461.7	721 (1)	5.4	3.9 (e)	1198
Philippines	60.00	300.4	668 (e)	9.0	6.1 (e)	1085 (e)
Singapore	2.65	0.6	8932	1.5	9.0	2345
Sri Lanka	16.60	65.6	423 (n,e)	14.0	3.5 (n,e)	544
Taiwan	19.80	36.0	5696	5.0	7.0	10760
Thailand	54.50	514.0	841 (1)	3.8	8.4 (1)	2074
Vietnam	66.20	329.6	150 (2,n,e)	700.0 (e)	-	1200 (2,e)

(1) 1987 (2) 1986 (3) 1985 (4) 1984 (e) estimated figure (n) gross national product (GNP)

Source : The Economic and Business Report

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita ($)	Inflation (%)	GDP real growth (%)	Balance of trade ($m)
Afghanistan	15.50	647.5	170 (1,e)	-	3.5 (3,e)	196
Algeria	23.84	2381.7	2271	6.0	1.8	640
Bahrain	0.46	0.7	7040 (1,e)	0.3	2.8 (1)	13
Cyprus	0.69	9.3	5985	3.5	6.9	1030
Djibouti	0.50	23.2	430 (1,e)	-	-	182 (1)
Egypt	54.00	1101.5	731 (1,e)	17.6	1.5 (1)	6800
Iran	52.70	1648.0	3408 (n)	15.0 (1,e)	0.2 (1,e)	144
Iraq	17.20	434.9	2943 (1,e)	25.0 (1,e)	1.7 (1,e)	879
Israel	4.50	20.8	7677	16.3	1.8	3144
Jordan	2.90	95.4	1552	14.0	3.5	1705
Kuwait	1.96	17.8	13160 (n)	1.5	-	1907
Lebanon	2.80	10.5	-	700.0 (2)	-	1540 (2,e)
Libya	4.30	1761.1	5500 (1)	-	-	433 (2)
Mauritania	2.00	1030.7	503 (1,e)	8.2 (1)	0.5 (2,n)	146 (2)
Morocco	23.30	711.0	720 (1)	2.3	8.0	752
Oman	1.38	320.0	5780 (1,n)	0.0 (1)	1.6 (2,n)	439
Pakistan	105.41	804.0	362	8.8	5.8	2607
Qatar	0.35	11.4	15645	1.6 (1)	0.4 (1)	619
Saudi Arabia	14.00	2149.7	5535	1.0	0.0 (1)	1952
Somalia	5.70	738.0	290 (1,n)	125.0	12.4 (1,n)	382 (1)
Sudan	23.10 (1)	2505.8	482 (1,n)	24.4 (2)	3.2 (1,n)	403 (1)
Syria	11.34	185.2	1820 (1,n)	59.0 (1)	9.3 (1)	869 (1)
Tunisia	7.80	164.2	1286	6.3	1.5	1090
Turkey	54.10	779.5	1342 (n)	75.4	3.4 (n)	1800
United Arab Emirates	1.50	90.6	15527	6.0 (1,e)	2.1	-
Yemen Arab Republic	9.30	195.0	576 (1,n)	-	2.4 (2,n)	1141 (1)
PDR	2.48	333.0	420 (1,n)	-	1.2 (2,n)	-

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (n) gross national product (GNP)

Source : The Economic and Business Report

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita ($)	Inflation (%)	GDP real growth (%)	Balance of trade ($m)
Algeria	23.84	2381.7	2271	6.0	1.8	640
Angola	9.20 (1)	1246.7	-	-	-	118 (1)
Benin	4.30 (1)	112.6	351 (2)	5.0 (2)	8.0 (1,e)	385 (1)
Botswana	1.21	582.0	973	8.4	1.3	386
Burkina Faso	8.30 (1)	274.2	216 (1)	4.2 (1)	3.2 (1)	418 (2)
Burundi	5.15	27.8	232 (1)	4.5	2.0 (1)	78 (1)
Cameroon	10.70	475.4	1185	8.6	2.0 (1)	398 (e)
Cape Verde	0.36	4.0	500 (1,n)	-	6.0 (2,n,e)	124 (e)
Central African Republic	3.00	623.0	330 (1,n)	4.0	0.4 (1,n,e)	71 (1)
Chad	5.40	1284.0	130 (1)	6.5 (1,e)	0.5 (1,n)	150 (1)
Comoros	0.42 (1)	2.2	370 (1)	-	1.7(1,n,e)	34 (3)
Congo	2.00	342.0	842 (n,e)	16.5	0,6	373
Code d'Ivoire	11.60	322.5	857	7.0	3.9 (1,n)	815
Djibouti	0.50	23.2	430 (1,e)	-	-	182 (1)
Egypt	54.00	1101.5	731 (1,e)	17.6	1.5(1)	6800
Equatorial Guinea	0.41	28.1	399 (1)	-	-	-
Ethiopia	47.90	1251.0	113	7.0	8.0 (1)	1125 (1,e)
Gabon	1.09	267.7	2988	6.0	12.3 (e)	404
Gambia	0.81	11.3	290 (1)	11.7	-	31
Ghana	14.10	239.5	624 (1)	31.3	6.0 (e)	125 (1)
Guinea Republic	6.50 (1)	246.0	320 (1)	-	5.9 (1,e)	116 (1)
Guinea Bissau	0.92 (1)	36.1	170 (1,n)	30.0 (2)	-	30 (1)
Kenya	23.90	582.7	360	8.2	6.1	785
Lesotho	1.70	30.4	234 (1)	12.2 (1)	5.8 (2)	409 (1)
Liberia	2.50	111.4	450 (1,n)	5.0 (1)	1.0 (1,n,e)	63 (1)
Libya	4.30	1761.1	5500 (1)	-	-	433 (2)
Madagascar	10.90	587.0	190 (2)	15.0 (1,e)	1.0 (1,n,e)	17 (2)
Malawi	8.40	118.5	182 (1)	33.9	3.6	139 (1)
Mali	8.70 (1)	1240.2	222 (1,n)	-	2.0 (2,n)	80 (1)
Mauritania	2.00	1030.7	503 (1,n)	8.2 (1)	0.5 (2,n)	146 (2)
Mauritius	1.08	1.9	1714 (1)	9.1	7.4 (e)	147
Morocco	23.30	711.0	720 (1)	2.3	8.0	752
Mozambique	14.70	799.4	95 (n)	-	3.1 (1)	549 (1,e)
Namibia	1.70 (1)	823.6	1014 (2)	16.0 (2)	1.0 (2,e)	65 (2,e)
Niger Republic	6.80 (1)	1267.0	318 (1,n)	6.7 (1)	6.6 (2,n)	159 (1)
Nigeria	105.00	923.8	287 (1)	3.2	4.2	2419 (1)
Rwanda	6.80	26.3	319 (1)	2.9	4.5 (2)	161
Sao Tome & Principe	0.11	1.0	280 (1)	-	5.1	10
Senegal	7.00	196.2	510 (1,n)	6.4 (2)	1.3 (2,n)	447 (1)
Seychelles	0.07	0.5	3723 (1)	1.7	2.5 (n)	113
Sierra Leone	4.00	72.3	300 (1,n)	179.0 (1)	0.4 (1,n)	25 (1)
Somalia	5.70	738.0	290 (1,n)	125.0	12.4 (1,n)	382 (1)
South Africa	33.80	1221.0	2574	12.8	3.2	5200
Sudan	23.10 (1)	2505.8	482 (1,n)	24.4 (2)	3.2 (1,n)	430 (1)
Swaziland	0.70 (1)	17.4	773 (1,n)	12.4 (1)	0.9 (2,n)	27 (1)
Tanzania	23.20	945.1	153 (1)	35.0	3.9 (1)	860
Togo	3.30	56.6	300 (1,n)	0.1	1.4 (1)	28
Tunisia	7.80	164.2	1286	6.3	1.5	1090
Uganda	17.20	236.0	260 (1,n)	60.0	5.0	316
Zaire	34.00	2345.4	90 (1)	100.0	2.6 (1)	563
Zambia	7.50	752.6	250 (1,n)	55.7	2.7	497
Zimbabwe	8.90	391.1	580 (1,n)	12.5 (1)	2.6 (2)	381 (1)

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (n) gross national product (GNP)

Source : The Economic and Business Report

Key indicators 1988/89

	Population (m)	Area ('000 sq km)	GDP per capita ($)	Inflation (%)	GDP real growth (%)	Balance of trade ($m)
Albania	3.20	27.4	850 (2,e)	-	-	42 (2,e)
Andorra	0.05	0.5	9834 (1)	-	-	-
Austria	7.60	83.9	13900 (1)	1.9	1.0 (1)	4700
Belgium	9.92	30.5	15345	1.2	4.2	1105
Bulgaria	9.00	110.9	2750 (1,m)	-	5.1 (1,s)	161 (1)
Cyprus	0.69	9.3	5985	3.5	6.9	1030
Czechoslovakia	15.61	127.9	6045 (2,m)	2.3 (2)	2.0 (1,m)	-
Denmark	5.13	43.1	21060	4.5	0.4	1300

	Population (m)	Area ('000 sq km)	GDP per capita ($)	Inflation (%)	GDP real growth (%)	Balance of trade ($m)
Finland	4.95	338.1	18163 (1)	5.1	5.2	1390
France	55.90	544.0	16859	3.1	3.7	8100
GDR	16.70	108.3	8659 (s)	-	8.2 (2,s)	1613
German Federal Republic	61.20	248.7	19261 (n)	1.1	3.6 (n)	68760
Gibraltar	0.03	0.0	7346 (1,n)	4 4	-	167
Greece	10.00	132.0	5242	13.5	1.0	6702
Greenland	0.05	2175.6	-	-	-	157 (1)
Hungary	10.60	93.0	2471	15.7	0.4	-
Iceland	0.25	102.9	22976	23.5	1.9 (n)	153
Ireland	3.54	70.3	8323	2.1	3.0	2983
Italy	57.40	301.3	14430	5.0	3.9	9109
Liechtenstein	0.03	0.2	35600 (1)	1.9	0.0	472
Luxembourg	0.38	2.6	18486 (1)	1.6	5.2	-
Malta	0.35	0.3	5168	0.9	6.2 (1)	644
Monaco	0.03	0.0	-	-	-	-
The Netherlands	14.80	41.5	14558	0.7	3.0	8171
Norway	4.20	324.0	22457	6.7	1.1	1079
Poland	37.80	312.7	1363 (m,e)	60.0	4.7 (m)	1089
Portugal	10.40	92.1	3465 (1)	9.6	4.7 (1)	5100
Romania	23.10	237.5	3456	-	3.6 (1)	1900 (2)
San Marino	0.02	0.1	7001 (3)	-	-	-
Spain	39.10	504.8	4236 (2)	4.8	5.0	18000
Sweden	8.40	449.0	21289	5.8	2.0	3903
Switzerland	6.51	41.3	37361	1.9	3.2	10900
Turkey	54.10	779.5	1342 (n)	75.4	3.4 (n)	1800
United Kingdom	57.10	244.1	7937	4.8	2.6	24937
U.S.S.R.	287.50	22402.2	-	-	4.4 (m)	2725
Yugoslavia	23.60	255.8	2355 (2,m)	194.0	3.6 (2,m)	779

(1) 1987 (2) 1986 (3) 1985 (e) estimated figure (m) (n) gross national product (GNP)

Source : Economic and Business Report

UNIT 2

CONCEPTUAL FRAMEWORK

Objectives

After going through this unit you should be able to:

- distinguish between foreign, international and multinational marketing
- distinguish between global and domestic marketing
- define and use concepts related to the management of the international marketing function.

Structure

2.1 INTRODUCTION

A company executive has been invited to give a talk on international marketing to a group of MBA students.

In order to maximize the thrust of his lecture he looks at company's foreign operations, since its inception with a view to identify the subtle differences underlying the activities of foreign marketing, international marketing and multinational marketing. This is what he finds about the history of his company's foreign operations.

The company started its export operation in the year 1948, exporting to three specific markets – the U.S.A., Britain and some countries around India. The operation was mostly order based. With the induction of new CEO in 1955 these operations acquired a major change. The market needs were identified and production was oriented to meet their needs. The company had appointed some agents to handle the marketing of their product. By 1970 the operations had grown large enough to account as a separate business entity. In 1972 this entity had been created and a new CEO had been appointed. He made two major changes – he created subsidiaries in the foreign markets which would handle all the business functions. He, however, made it a policy to appoint nationals at key positions in each of the subsidiaries. By the time he retired in 1980 each of these subsidiaries was running as an independent business unit. It no longer required direction from the headquarters and was quite capable of making its own decision.

In fact today these subsidiaries are not only operating independently but also help each other by re-directing their production to the subsidiaries that have need for such production. Although the company now has an universal brand name each subsidiary still proudly retain their own nationality.

The current CEO was appointed in 1980 in Asia and had aimed at making the following major changes:

- changing the policy of recruitment
- changing the location of production facilities from subsidiaries in home countries to centralise in Asian countries.

The executive although knows these facts cannot decide when company adopted a multinational stature.

Activity 1

Can you help the executive in making this decision through a clear classification.

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When the firm decides to exploit the world as a market it is hoping to be a global marketer. Two types of activities emerge in the arena of global marketing and they involve—

- Foreign marketing
- International and Multinational marketing

These activities may be undertaken sequentially or the second may override the first. These activities normally develop as a firm grows in its life cycle and saturate its domestic markets, indulging first in foreign marketing before proceeding to international marketing and subsequently to multinational marketing.

Foreign Marketing

Foreign marketing is nothing but marketing in **foreign** environment. This concept assumes foreigners of the new environment because of its constant reference to the domestic market and environment.

In this stage of marketing the concern merely expands the market size. It applies the same marketing mix even in the foreign environment. It makes no effort to adapt its marketing mix or product to the market needs and requirement.

The emphasis in this stage of marketing is on expanding the market size and not the marketing mix. The company follows a binary orientation when marketing – the home country and foreign country orientation.

International and Multinational Marketing

The second phase that company enters with reference to global operations is international marketing.

In this stage the firm retains its binary orientation but adapts its marketing mix to the requirement of the new environment. Thus while it thinks of profitability vis-à-vis the parent company it makes sure that the product is marketed with the best mix that it can design. In its activities the company changes its stature. It might even open subsidiaries in the foreign market. These subsidiaries may be working either through direction from the headquarters or independently but the key positions in such concerns are manned by nationals.

Multinational Marketing

When the company orientation changes from binary to unitary then it becomes truly multinational. The approach is product/market, satisfying the market is the prime thrust of such a marketing concern. It makes no distinctions in its personnel policy between national and non-national. The role of headquarters in such concerns is that of co-ordination among the subsidiaries. But the primary thrust is on the orientation – Product/market orientation! The marketing mix is designed to earn maximum profits through customer satisfaction.

Thus the distinctions between international foreign and multinational marketing can be depicted as under:

Exhibit 2.1

Patterns of Marketing Overseas

Foreign Marketing	— Marketing within foreign countries
	— Marketing mix remains the same as domestic market
	— No subsidiaries
International Marketing	— Marketing across international markets
	— Marketing mix adapts to the market
	— Subsidiaries develop.
Multinational Marketing	— Marketing approach is universal
	— Absence of concept of foreign country
	— Marketing mix adapted to country requirement
	— Co-ordination in the efforts of subsidiaries.

All these are activities of global marketing. But then, what is global marketing? In, order to understand the concept of global marketing it is necessary to reiterate the concept of marketing.

.2

The Marketing Concept

In early sixties the concept followed was the selling concept where the focus was upon product/ service and end was profit via sales. This meant that the emphasis was on hard sell and not on the consumers' requirement or needs. What the producer perceived as a good product, he manufactured and sold.

However, today the marketing concept followed has undergone a marked change, the focus is now on consumers/competition. The emphasis is therefore on what is being demanded by the consumers and what is being supplied to him by the competitors. The end as perceived by a good marketer is profit via consumer satisfaction. The means adopted is adapting the variables of the marketing mix to the requirement of the market.

Marketing can now be defined as "the process of focussing the resources and objectives of an organisation upon the opportunities and needs that exist in the environment".

Global marketing as already expressed is nothing but directing the efforts in other countries. The marketer looks upon world as a market. Global marketing may thus be defined as "the process of focussing the resources and objectives of an organisation upon the opportunities and needs that exist globally".

2.2 GLOBAL AND DOMESTIC MARKETING

If the distinction between the two definitions is the world global then is the task of marketing very similar to that of domestic marketing. The answer to the above statement is a Yes but new dimensions have emerged. They include the increase in the number of markets and difference in the orientation that arises because of entering new country or a new environment.

Thus the differences between domestic and global marketing arise entirely from the differences that exist in the national environment within which the marketing effort is directed and the differences that arise in the organisation and programme because of operations being conducted simultaneously in different markets. Because this statement does not bring out the magnitude of differences, it becomes necessary to analyse the impact on marketing variable. For this a checklist has been prepared:

Exhibit 2.2

A Checklist for Differentiating Domestic & International Marketing

Decision Variable	**Domestic Marketing**	**International Marketing**
Market Segment:	Single Market & Sub-markers	Multiple Markets Multiple Sub-markets
Marketing Control :	Easier as only a single market and sub-market is served	More difficult as new variables like culture, religion, govt. policy enter the gamut of decisions.

Decision Variable	Domestic Marketing	International Marketing
Market Research:	Awareness of the market in domestic market is high, therefore one can often do without market research	Imperative
Administration:	Since the Control is over a single set up, administration is relatively easier	Multiple markets, multiple mix of marketing variables demand a new set up of administrative machinery
Product Mix:	The decision is taken solely on the grounds of providing better service to increase revenue – stages of PLC may be ignored	Although the decision grounds are identical market adaptability and acceptability becomes a question.
Product Quality:	Product quality may be placed anywhere on the BCG Matrix of product and price.	With the production function, Product quality is normally high even if the technology is old.
Product Design:	Since the product is designed for the market question of adapting does not arise.	Product has to be adapted to every market segment.
Product Development:	Product development to meet domestic market needs – When the product reaches end of its life cycle, it is withdrawn.	Products developed to meet international market needs – May move to new markets Where it may be in growth or introduction stages.
Advertising:	Single market – Single message, question of adaptation limited to sub-segments, media choice known with certainty	Multiple market – multiple message depending on the emphasis demanded by each market – message may be adapted to new markets or could be universal – Complex media availability.
Sales Promotion:	Nationality may be used to promote sales Options known with certainty therefore choice is often taken in advance	rarely used — Options may not be known. choice therefore depends upon market research.

Activity 2

i) List some exporters and examine their activities with reference to the definitions of foreign, international and multinational marketing.

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ii) "Hard sell strategy is being used by exporters in India." Examine the statement critically with reference to an example.

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iii) Decide whether the operation of Hero Honda are foreign, international, multinational with the help of the following data:

Exhibit 2.3

Hero Honda's bid to export components

A management team of Hero Honda Motors Ltd. is going Japan next week to explore the possibility and identify components for export to its collaborator, Honda Motors Ltd.

The Japanese collaborator, one of the world's largest manufacturers of motorcycles, has evinced keen interest in buying components, especially casting and forgings, from its Indian partner. Moreover, the team will also seek access for export to Honda subsidiaries worldwide engaged in the manufacture of motorcycle.

The Indian company has already made an entry in the foreign market by exporting its 100 cc motorcycles to Sri Lanka. A team from Nigeria will come to India later this month to hold negotiations for importing Hero Honda motorcycles. Trial supplies have also been made to Oman, Dubai and Abu Dhabi. According to the management, there is bright scope for exporting motorcycles to Bangladesh, Ivory Coast, Mauritius, Kenya and Ghana.

In the domestic market, the company achieved a market share of over 40 percent in 1989-90 in spite of the labour problem at its works during the year. Sales of both 100cc CD and Sleek models have aggregated 96,192 vehicles against the target of one lakh vehicles primarily because of the production loss due to a labour strike. In the fist two months of the current year (April-May), however, production and sales have logged 10,000 units per month. The company has targeted sales of 1,20,000 vehicles for 1990-91, 1,35,000 for 1991-92 and 1,50,000 for 1992-93.

Meanwhile, the company achieved a turn around in the second half of 1989-90, though it incurred a small loss of Rs. 44.83 lakh after providing Rs.5.28 crore for depreciation during the year. Sales have amounted to Rs.150 crore in 1989-90, which are expected to increase to Rs. 200 crore in 1990-91.

The company has achieved an indigenisation level of about 95 percent during 1989-90 with the start of production of electrical components and forgings. Only a few engine components like valves, pistons and carn chain now remain to be indigenised, and are likely to be in production in a year's time.

According to Mr. Pawan Kant Munjal, works director, the company has decided to penetrate the rural markets by introducing features tailored to rural road needs.

Moreover, it has decided to open more office and expand its dealership network in order to tap the rural market. With aggressive marketing strategies both at home and abroad, the company is poised for a marked growth in sales and profits in the future.

iv) Can you comment upon the operation of Honda, the parent company.

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2.3 GLOBAL MARKETING : A CONCEPTUAL FRAMEWORK

Global marketing has two major dimensions which arise because of the distinction between domestic marketing and global marketing. They may be enumerated as under:

- Problems and dynamics of a new market that a firm chooses to enter.
- The impact on organisations structures and programmes created by entering **new markets.**

  (The emphasis is on the number of markets open to the company)

When a company leaves its home country and enters a foreign country it immediately comes into contact with the rules and regulations of the foreign country it chooses to operate in. This has widespread implications on each and every element of marketing mix and ots organisation. The duties, the company pays are ultimately passed on to the consumer through price. The company might choose to enter a region through a country of low duties and tariff regulations which means the place variable is affected. Similarly, the product and promotion variable also gets affected by the culture, the medium of communication available, religion and other similar variables.

These variables not only affect the integration of the marketing mix but also have an impact on the organisational structure. The basic questions of global marketing what, who, when, where, how, regarding the opportunities that exist in the global market influence the structure of the company that wishes to exploit these opportunities: Who is to take the decision? Which markets have to be penetrated? How are they to be penetrated? All other similar questions reflect in the organisational structure.

Exhibit 2.4

Strategy Formulation

A Conceptual Framework

Phase I Strategic Dimensions	Scanning the Dimensions **THE ENVIRONMENT** • Government, political, socio-cultural,technological, market competitors, customers cost **Organisation of Resources & Capabilities** • Marketing, finance, human resources, manufacturing, engineering, R & D, risk taking capabilities **Values and Aspirations** • Aesthetics, styles, ethics, size, profitability growth, social responsibility, ecology, geography
Phase II	**Generating Alternatives** • Analyse the environment for opportunities and threats • Analyse the organisation's strengths and weaknesses • Match and develop alternatives • State the underlying assumptions
Phase III	**Determining Objectives** • What is desired? Where? By whom?
The objectives	With reference to: **Organisation** • Profitability, growth, sales, earnings, stockholders, socia environment **Product** • Product functions, quality, adaptation, Aesthetics **Markets** • Customer benefits, competitive position, technological position market share, geographic
Phase IV	**Develop Plans & Progrmmes** • Marketing, finance, manufacturing, human resources, control, soci accountability, R & D, engineering

Phase V **Committing Resources**

- Obtain and allocate resources to plans and programmes on the basis of hierarchy.

Phase VI **Monitoring and Control**

- Monitor performance, assess with respect to objectives.
- Control the deviations to achieve planned objectives
- Review the entire process before undertaking major changes.

Phase VII **Time Scaling**

		Performance	**Future Plan Budget**	
		fund allocation		
Past	Present	Next year	Medium term	Long term

According to Keegans framework the strategy for entering the foreign markets involves seven distinct phases. These phases may be outlined as below:

Phase 1 identifies the three basic strategic dimensions—the environment, the organisation and the values and aspirations. This involves scanning the environment for opportunities and needs and at the same time identifying the threats that exist in the environment.

Phase 2 is closely interlinked with phase 1 and indulges the company to enter into a SWOT analysis with reference to its resources, strengths and structure.

Phase 3 is a result of the matching process of phase 1 and phase 2 to identify markets and product with which to enter that suit both the opportunities that exist in the environment and the strength of the company to handle them. Basically it is the stage of developing feasible alternatives. This is a result of defining the product/market objectives and broad organisational objectives.

Phase 4 is the phase in which these objectives are converted into plans and prgorammes necessary for achieving these objectives, having identified specific plans and programmes.

Phase 5 results in process of committing resources (this is the point of no return) to the plans and programmes identified as per their hierarchy of importance. Like in all programmes **Phase 6** develops the control system necessary for achieving the objectives. It identifies the criteria on which corrections are based. It must evaluate and monitor both organisation performance and impact performance.

Phase 7 applies a time frame within which the activities are to be executed. For this short-term, medium-tern and long-term objectives have to be defined. Short-term objectives may not be meaningful in the medium-term or in the long-term. But at the same time the firm must keep in mind the future dimensions, i. e., it has to identify its objectives in the long run.

While this process seems to be familiar and similar to the marketing management process. It raises different questions as result of the forces operating in the environments of the country(s) it chooses to market in. These forces may be unifying or diversifying and must be carefully considered for their implications. Some of the questions raised can be expressed as under:

Exhibit 2.5

International Marketing Inputs for Analysis

STRATEGIC IMPLICATIONS

- Who is making the decisions?
- What are the company policies?
- What are the goals of the company?
- What are the objectives for entering foreign markets?
- What are the assumptions regarding the company?
- Are they valid?
- What are the available resources and in what quantities are they available?

MARKET ANALYSIS

- What are the general market conditions
- How large are the markets?
- What are the marketing Institutions existing in
  - distribution system
  - communication medium
  - marketing research services
- Who are the competitors in the market? What are their resources and competitive characteristics?
- What is the customer management process like?

PRODUCT ANALYSIS

- What are our products, functional Strengths and weaknesses?
- What stage of PLC saturation level?
- What is the stage of Technical development?
- What needs could be satisfied by the company products?
- What benefits are we providing the customers?

ENVIRONMENT ANALYSIS

- What is the country's GNP?
- What is the per capita income?
- What is the social condition?
- What is the cultural condition?
- What are the political considerations?
- What stage of development is the country in?
- What is B.O.P. position?

STRATEGIC PLANNING

- Who is going to make the decisions?
- What are the assumptions made with reference to target markets? Are they valid?
- How do we concentrate or spread?
- Should the company adapt, any one or all elements of the marketing mix
- What are the opportunities and the company's objectives?
- Who are the competitors and their respective strengths?

STRUCTURE

- With reference to the above questions how is going to be the company's structure. Who can be given what responsibilities and authorities?

ORGANISATION & PROGRAMMES

- Given the objectives, the policies, goals of the company and the opportunity. What kind of programmes will develop and the organisation of these programmes in terms of hierarchy and importance?

CONTROL

- What variables will be used to measure performance?
- What variables will be used to measure impact?
- What steps are to be taken to bring about the desired changes?

The above framework gives us the basic process for management of marketing for international markets. However there is yet another dimension to the process and this refers to the 'Executive View Point' for marketing in international market(s).

An Executive's Viewpoint

In the days of modern business culture it has been widely accepted that it is the Chief Executive Officer (CEO) who gives the shape and pace to the organisation. His viewpoint therefore becomes important from the point of international marketing.

Basically the CEO views the international marketing problem in five distinct phases. These phases can be expressed very clearly in form of questions. These questions are as below:

- Does the company wish to enter foreign markets?
- What are the options if the answer is yes?
- What approach should be adopted for the process and how does he control the entire process?
- How does he get the product to the market?
- And last but not the least what is the liability/risk the firm is undertaking?

If the CEO raises the first question then he would most probably be examining the company's policies regarding profitability, structure, product, client base, resources and thrust.

From the policy angle he would probably be looking at ways and means to increase profitability without really affecting the risk profile of the company.

He would be asking questions on the product—its function, its life and service and also would it be possible for the product to find markets abroad. To make sure he would check his existing clienteles to see if any on of them was exporting his product or other similar products. He would have to keep in mind the production capacity and product quality factor. He would also have to find out what quantity is the product normally exported in –(what is the size of the smallest order in the defined product class?) the other factors that would influence his decision are the availability of time and money resources. Since the thrust of his reasoning would be profitability he would be also re-examining the cost-margin factors and possibilities of changing them.

After becoming reasonably sure of his premise for entering into foreign markets he would have to learn about the environment. Here the marketing tool of market research would come to his aid in identifying potential markets. He may base his decision solely on secondary data—on trade statistics, product statistics, economic and demographic statistics or he may also extend his research through primary research displaying in trade fairs, talking to other exporters, and conducting surveys in the desired/identified markets. He would have to choose the method of entry that seems appropriate to him and market. The standard alternatives of direct exporting and indirect exporting would also be considered by him. For any method that he chooses he has to evaluate it further in terms of which should he choose and why?

Having decided on the country and method of entry the CEO would be faced with problem of organising the marketing mix to suit the company's objectives and the county's needs. He would have to consider questions regarding cost modifications keeping in mind shipping and entry costs (entry costs refer to commissions, tariffs, custom duties to be paid etc.), price, the options for reaching the customers, product and the place.

If the process of marketing involves more than one country then the CEO would also have to identify and state company policies regarding objectives of export, the resource allocation, distribution methods, marketing approach and targets. This would involve a quick but thorough analysis into industry and competition in both domestic and world markets. All this would make the framework of the marketing. Operationalisation of this plan would also have to be considered at the policy level for limiting options regarding financing, credit in foreign markets, mode of transportation, use of freight forwarders and other agents and money payable to them for services rendered, insurance, and its level. By making choices at each level the CEO declares his thrust and pace in the process. At each level he tries to foresee the risk structure and type of risk his company is getting into. In his policy he makes an attempt to minimise the risk profile of the company.

Activity 3

I) Examine the export policy of a company from the viewpoint of thrust, profitability and risk

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II) What are the likely objectives of company that wishes to enter the export arena?

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2.4 SOME CONCEPTS

The management process in international market has been influenced by certain concept and frame works that have emerged. They include the international product life cycle, the EPRG framework and continuum of environmental sensitivity.

International Product Life Cycle

While the concept of international product life cycle has already been explained in the previous unit the emphasis of the concept can be reiterated.

The product life cycle examines the phases of life of the product from introduction, to growth, to maturity, to decline. The emphasis is on the changes in the market place and subsequent changes in the marketing mix. In the case of international product life cycle, however, the approach remains the same but the emphasis shifts from changes in market place and marketing mix to changes in price and cost and the changes in the production process.

For formulating international product strategies this approach has opened new doors. This model realises the implications of these changes in focus and attributes international trade and foreign investment on the stage the product is in the domestic life cycle, i.e., a company not wishing to loose its asset investment may simply market the product in a market where the product is in its growth or introductory stages. Furthermore the approach also emphasises on market related factors like innovation, imperfect information and knowledge of the market and oligopoly thereby influencing the dimension of strategy formulation.

EPRG Framework

Depending on the kind and degree of its involvement in foreign marketing, a firm has to re-orient and re-organise its activities to cope with the different levels of operational responsibilities inherent in such involvement. To throw some light on this issue, some guidelines are available from what is called the EPRG orientation. The EPRG framework attempts to identify four broad types of orientation of a firm towards internationalisation of its operations. These are: Ethnocentrism, Polycentrism, Regiocentrism and Geocentrism (EPRG).

Ethnocentric Orientation

The ethnocentric orientation of a firm considers that the product, marketing strategies and techniques applicable in the home market are equally applicable in the overseas markets as well. Foreign markets are looked upon merely as an extension of the home market. In such a firm all foreign marketing operations are planned and carried out from the home base, with little or no difference in product formulation and specifications, pricing strategy, distribution and promotional measures in the home and overseas markets The firm generally depends on its foreign agents and export-import merchants for its export sales.

Polycentric Orientation

When a firm adopts polycentric approach too overseas marketing it attempts to organise its international marketing activities on country-by-country basis. Each county is treated as a separate market entity and individual strategies are worked out accordingly. Local assembly or production facilities and marketing organisations are created for serving the market needs in each country.

Polycentrism could be most suitable for firms seriously committed to international marketing and have the resources for investing abroad for fuller long-term penetration into chosen overseas market.

Regiocentric Orientation

In regiocentric approach, the firm adopts a regional marketing policy covering a group of countries which have comparable market characteristics. The operational strategies are formulated on the basis of the entire region rather than individual countries and production and distribution facilities are created to serve the whole region with effective economy of operations and closer control and coordination.

Geocentric Orientation

In geocentric orientation, the firm adopts a worldwide approach to marketing and its operations become truly global in character. In a global enterprise, the management establishes manufacturing and processing activities at specific points around the world in order to serve the various national or regional markets through a complicated but well-coordinated system of productive and distributive network. There are close similarities between regiocentric and geocentric approaches to international marketing, except perhaps that the geocentric orientation calls for a much greater scale of operation, coordination and organisational set-up in order to cater to markets of heterogenous characteristics which are usually more pronounced in geocentrism compared with regiocentrism.

Briefly then the orientation that the firm adopts is a function of the attitude it takes and this attitude is reflected in its marketing efforts.

Exhibit 2.6
EPRG at a Glance

	Orientation	Attitude	Marketing Effort
ETHNOCENTRIC	Home country	Overseas operations are viewed as secondary operations	Centralised
POLYCENTRIC	Host Country	Subsidiaries established each subsidiary operations independently	Decentralised and market specific
REGIOCENTRIC	Region	On the basis of similar markets which are clustured and regions are treated as market	Integrated
GEOCENTRIC	World	World is treated as a market	Integrated

Activity 4

I) Look for examples of companies in the world following each of the above orientation.

II) What variables would you take into account for selecting a market?

While the Exhibit 2.6 gives a broad outline of what the framework is, its implications on strategy formulation remain largely ignored because of their depth and the fact that they influence virtually every marketing variable and decision. To understand the implications let us take a variable (organisation structure) and see how this framework modifies it.

Exhibit 2.7

Organisation Structure	**Ethnocentric**	**Polycentric**	**Regiocentric and Geocentric**
Complexity of design	Complex in home simple in subsidiary	Independent and varied	Complex and interdependent
Decision making	Concentrated at headquarters	Each subsidiary making its own decisions (mutually exclusive)	The decisions are taken on common approach (mutually inclusive) i.e., integrative approach
Recruitment	Home country people considered superior and therefore allocated to all key posts in subsidiary	One or two key people are nationals the remaining are from host country	Choice among the best
Evaluation and Control	The criteria remain same as at the home country	The criteria are determined locally and judged by the subsidiary needs.	Universal and local criteria are created
Incentives	Concentrated at home i.e. headquarters	Wide variations	Both applicable for local and internationally set standards.
Communication	Heavy top-down from headquarter to subsidiaries	Low mutual sharing (no-or-low among subsidiaries)	Intensive communication between headquarters and subsidiaries.
Identification	Home country	Host country	Global

This gives us an idea as to how the choice of an orientation can have an impact on the strategy formulation process.

A study was conducted by Howard Perimutter to get some insight the framework and to examine its validity. Forty key executives of an international concern were interviewed on 15 international marketing decisions. It was found the polycentric orientation was most commonly followed, however, the desire was to reach geocentric orientation. Polycentric approach was found to be most applicable in case of decisions on price, customer service, market research and choice of channels of distribution, however for decisions like brand name and product quality geocentric orientation was reflected. The firm can thus follow multiple orientation while indulging in the marketing management process. However this would have to be variable specific.

Continuum of Environmental Sensitivity

This concept again influences the strategy specifically relating to the product planning formulation process. The management is forced to answer questions pertaining to product functions benefits and degree of adaptation required for being marketed in foreign markets. According to this concept there are two types of products—environmentally sensitive products and environmentally insensitive products. The environmentally sensitive products require major adaptation to the economic and social environment existing in the foreign country. The business has to spend a great deal of time learning about the way its products react specifically with the economic, social, physical and perspective environmental conditions that exist throughout the world. Food products is an example of environmentally sensitive product.

On the other hand of the continuum is the environmentally insensitive products. Such products require little or no adaptations for being marketed in the foreign countries. An example of the environmentally insensitive product is computers. This approach helps the business to realise, on the one hand, product options having chosen the market or product modification options and on the other hand market options, having chosen the product. These together represent some of the major concepts that have influenced the strategic formulation process for marketing in foreign countries. Other concepts like cluster analysis etc. play an equally important role in process of developing a conceptual framework.

2.5 SUMMARY

In this unit the process of strategy formulation for marketing in foreign lands has been discussed both from the point of view of the firm and from the point of view of the executive incharge.

Some concepts like the international product life cycle, the EPRG framework, the continuum of environmental sensitivity have also been examined along with the implications they raise in the international marketing management process. All this is of course dependent on how one defines international marketing.

2.6 SELF-ASSESSMENT QUESTIONS

1) What are the different international marketing definitions applicable today? Examine them with the help of examples.
2) The EPRG framework has implications on the strategy formulation process. Explain with help of example in the Indian context.
3) The CEO of a company manufacturing shampoos has chosen to enter Bangladesh to exploit the latent demand. Examine the decision using variable like GNP, per capita income, distribution of income, etc.
4) With reference to question (3) above explain the advantages and disadvantages in favour of his decision.

2.7 FURTHER READINGS

Warren J. Keegan, *Multinational Marketing Management*, 2nd edition, Underlying forces and Concepts, Prentice Hall of India, New Delhi.

John Fayerweather, *International Business Management*, 'A Conceptual Framework', New York, McGraw Hill, 1969.

UNIT 3

INSTITUTIONAL FRAMEWORK

Objectives

After going through this unit you should be able to:

- give an overview of the institutional framework for exports.
- discuss the role of consultative and deliber~tive bodies in the context of export,
- describe various types of service institutions facilitating exports,
- elaborate upon government participation in foreign trade, and
- discuss the export-import policy and export incentives in India

Structure

3.1 INTRODUCTION

This unit is directed towards explaining the institutional framework. An exporter needs guidance and assistance at different stages of his export effort. For this purpose the Government of India has set up several institutions whose main functions are to help the industry and trade engaged in exports. It would be advisable for an exporter to acquaint himself with these institutions and the nature of help that they can render to him so that he can initially contact them and have a clear picture of what help he can expect from organised sources in his export effort.

There are a number of constraints which are faced by an Indian exporter. They are basically high cost domestic inputs, low productivity of labour, under utilisation of capacities, existence of a lucrative domestic market, etc. The two other major handicaps faced by Indian manufacturers are high of cost of capital goods obtained under tied aid and uneconomic size of the plants necessitated by the government policy of avoiding concentration of economic power.

3.2 INSTITUTIONAL SET – UP

Institutions engaged in export effort fall in six distinct tiers. At the top is the Department of Commerce of the Ministry of Commerce. This is the main organisation that formulates and guides Indian's trade policy. At the second tier, there are deliberative and consultative organisations to ensure that export problems are comprehensively dealt with after mutual discussions between the Government and the Industry. At the third tier are the commodity specific organisations which deal with problems relating to individual commodities and/or groups of commodities. The fourth tier consists of service institutions which facilitate and assist the exporters to expand their operations and reach out more effectively to the world markets. The fifth tier consists of Government trading organisations specifically set up to handle export/import of specified commodities and to supplement the efforts of the private enterprise in the field of export promotion and import management. Agencies for export promotion at the State level constitute the sixth tier.

Exhibit 3.1

Institutional Framework : An overview

Tier Level	Bodies	Responsibilities
Tier I	Department of Commerce	Framing of Trade Policy
Tier II	Deliberative and Consultative Organisation	Coordination discussion between industry & Govt. of bringing in required changes.
Tier III	Commodity Organisations	Assist the export effort of specific product group.
Tier IV	Service Organisations	Facilitate and assist exporters to expand markets.
Tier V	Government Trading Organisations	Handle export import of specific commodity
Tier VI	State Export Promotion Agencies	Increase the State level interest of exports

Department of Commerce

The Department of Commerce is the primary government agency responsible for evolving and directing foreign trade policy and programmes, including commercial relations with other countries, State trading, various trade promotional measures and development and regulation of certain export oriented industries.

The most important division of the Department of Commerce which an exporter must be familiar with is the Export Services Division which deals with the problems of export assistance from import replenishment licensing, cash assistance, export credit, export houses, Marketing Development Assistance and grants therefrom, transport, free trade zones, dry ports, quality control and pre-shipment inspection, joint ventures abroad and capacity creation in export-oriented industries to assistance for import of capital goods and essential raw materials.

3.3 CONSULTATIVE AND DELIBERATIVE BODIES

Among consultative and deliberative bodies, are the Board of Trade which was set up only in May 1989, the Central Advisory Council on Trade and the Zonal Export and Import Advisory Committees.

Board of Trade

The functions of the 26 member board are . to advise the government on policy measures for the preparation and implementation of both short and long-term plans for increasing exports in the light of the emerging national and international economic scenario and to review the export performance of various sectors, to identify constraints and to suggest measures to be taken both by government and industry/trade consistent with the need to maximise export earnings and restrict imports. It will also examine the existing institutional framework for exports and suggest practical measures for reorganising and streamlining it with a view to ensure coordinated and timely decision-making.

The Central Advisory Council

The Central Advisory Council on Trade has 41 Members including representatives from different trade organisations and official bodies including individuals with business standing and expertise in the field of commerce. The Council which meets ordinarily twice a year, advises the government on matters relating to

1) export and import policy and programmes
2) the operation of export and import controls
3) organisation and development of commercial services
4) organisation and expansion of export production.

There are four zonal Export and Import Advisory Committees, one each for the western, eastern, southern and northern zones. These were set up in July 1968 (i) to consider difficulties faced in the operation of prevailing import and export policies and procedures and to suggest measures for improvement in disbursement of cash assistance (ii) to consider difficulties in the matter of customs clearance, shipping, credit , insurance and export inspection and to suggest measures for improvement therein, and (iii) to suggest improvements in the methods of working and public relations of the Import and Export Trade Control Organisation and other Government Departments concerned with trade and industry. The members of the Committees have a 3 year term. The Committee meet thrice a year. In addition there is a Cabinet Committee on Export consisting of the Prime Minister the Finance Minister, the Industry Minister and the Commerce Minister which takes policy decisions relating to export promotion, export production and performance.

Activity 1

Identify the location of each of the Zonal export-import Advisory Committees. What has International business gained by their existence?

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3.4 COMMODITY ORGANISATIONS

The Commodity Organisations are: 1) The Commodity Boards 2) The Export Promotion Councils and 3) The Export Development Authorities for Marine products, agriculture and processed foods. But the more important among them are the Export Promotion councils.

Export Promotion Councils

At present there are 19 Export Promotion Councils (EPC's) whose basic objective is to promote and develop the exports of the country. Each council is responsible for the promotion of a particular group of products, projects and services.

Exhibit 3.2

Export Promotion Councils At a Glance

1. Engineering Export Promotion Council (EEPC),Calcutta
2. Overseas Construction Council of India (OCCI), Bombay
3. Electronics & Computer Software Export Promotion Council, New Delhi,
4. Plastics & Linoleums Export Promotion Council, (PLEXICIL), Bombay,
5. Basic chemicals, pharmaceuticals & Cosmetics Export Promotion Council (CHEMIXCIL), Bombay,
6. Chemicals & Allied Products Export Promotion Council (CAPEXCIL), Calcutta,
7. Gems, & Jewellery Export Promotion Council (GJEPC), Bombay,
8. Council for leather Exports(CLE), Madras,
9. Sports Goods Export Promotion Council (SGEPC), New Delhi,
10. Cashew Export Promotion Council, Kochi,
11. Shellac Export Promotion Council, Calcutta,
12. Apparel Export Promotion Council (AEPC), New Delhi,
13. Synthetic & Rayon Textiles Export Promotion Council, Bombay,
14. Indian Silk Export Promotion Council, Bombay,
15. Carpet Export Promotion Council, New Delhi,
16. Export Promotion Council for Handicrafts, New Delhi,
17. Wool and Woolens Export Promotion Council, New Delhi,
18. Cotton Textiles Export Promotion Council (Texprocil), Bombay,
19. Handloom Export Promotion Council(HEPC), Madras.

EPCs are non-profit organisations. They are supported by financial assistance from the Central government.

Role: The main role of the EPCs is to project India's image abroad as a reliable supplier of high quality goods and services. In particular, the EPCs shall encourage and monitor the observance of international standards and specifications by exporters. The EPCs shall keep abreast of the trends and opportunities in international markets for goods & services & assist their members in taking advantage of such opportunities in order to expand and diversify exports.

Functions: Major Functions are

a) To provide commercially useful information and assistance to their members in developing and increasing their exports,

b) To offer professional advise to their members in areas such as technology upgradation, quality and design improvement standards and specifications, product development, innovation etc.,

c) To organise visits of delegations of its members abroad to explore overseas market opportunities; and

d) To organise participation in trade fairs, exhibitions and buyer-seller meets in India and abroad,

e) To promote interaction between the exporting community and the Govt. both at the central and state levels,

f) To build a statistical base and provide data on the exports and imports of the country, exports and imports of their members, as well as other relevant international trade data.

Any exporter/importer may apply to become a member of an EPC.

Exhibit 3.3
Commodity Boards: At a Glance

1. The Tea Board
2. The Coffee Board
3. The Coir Board
4. The Central Silk Board
5. The All-India Handloom Board
6. The All-India Handicraft Board
7. The Rubber Board
8. The Cardamom Board
9. The Tobacco Board

Outside India, the activities of the Council are primarily geared to the projection of proper industrial image of the country as also to the publicity of of the engineering goods with export potential.

Activity 2

What are the publications produced by the Apparel Export Promotion Council (AEPC)? Examine their usefulness from the point of view of apparel exporters.

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3.5 SERVICE INSTITUTIONS

A number of institutions and organisations have been established to meet the requirements of industry and trade. The fields in which these institutions have been active include development of export management personnel, market research, export credit insurance, export publicity, organisation of trade fairs and exhibitions, collection and inspection and quality control, development in packaging, etc. A brief review of the activities and functions of some of these institutions is given below:

The Trade Development Authority (TDA)

The TDA was set up by Government of India in 1970 for providing package assistance to enterprises at the micro level after identifying the potential of their products and their requirements of assistance. The TDA strives to concentrate on specific products, specific exporters, specific markets and specific buyers. Though the Trade Development Authority is a non-trading organisation yet it plays a catalytic role.

The TDA has three divisions namely, Merchandising Division, the Research and Analysis Division and the Trade Information and Statistics Division. The Merchandising Division which is the core division of TDA provides comprehensive services in the field of export promotion and export marketing. The TDA identifies technically competent and commercially viable medium and small scale units and assists them in the expansion of export oriented production facilities in selected products and areas, undertakes product development/adaptation and helps in raising the technology levels of selected exporters. The TDA arranges for commercial contacts between selected Indian units and potential foreign buyers. Once the export contract is concluded the TDA provides a package of services to the selected units. This package may include production inputs, balancing equipment, financial credits, marketing and merchandising and other aids. The TDA has adopted a number of methods to bring the buyer and seller into contact with each other. The TDA has been organising Trade Fair for Indian Products. It has also arranged for participation of its clients in product specific specialised trade fairs. It has also been organising departmental store promotion programmes for Indian merchandise.

TDA has also been inviting many buying delegations to visit India. It also identifies and cultivates specific buyers and selected overseas markets which have increasing trade potential. A special function of the TDA is to attract international sub-contracting of engineering and other components from India and promotion of export oriented joint ventures in the country in conjunction with the Indian Investment Centre.

Initially the TDA confined its activities to developed countries like the West Europe, the USA and Japan but now the TDA has enlarged its areas of operation to South-East Asia, Far-East and Middle-East. Similarly a number of selected non-traditional products were taken up in the beginning but today the product coverage has been substantially increased.

The TDA has set up overseas offices at Frankfurt, New York, Tokyo, Stockholm,and Monorovia.

The Research and Analysis Division conducts research activities for export promotion such as, assistance in identification of products and markets, feasibility studies, consultancy services, studies relating to India's foreign trade, GSP and other tariff concessions, inter-firm comparison, and short-term forecasting of exports.

The Trade Information & Statistics Division is designed to collect, compile, analyse, store, retrieve and disseminate information on international trade and industry and related fields in India and trade and economy of other countries. A modern trade information centre has been set up to meet the trade information requirements of the exporting community, research organisations and Government organisations. The Centre disseminates information on export marketing through across-the-desk services, responding to postal enquiries, and also through publishing. Weekly Trade Intelligence Bulletin, Market Intelligence Bulletin, information hand-outs and circulars.

The type of information supplied by the TDA includes:

- import contracts for specific commodity in specific country, including agents, distributors.
- import regulations of overseas countries;
- import tariffs of overseas countries offering preferences;
- import statistics on overseas countries;
- overseas/Indian trade fairs and exhibitions;
- details of publicity media in overseas countries;
- export documentation;
- foreign exchange regulations pertaining to travel abroad and prototype samples,
- health and hygiene regulations;
- marketing and labelling regulations;
- marketing channels;
- floor prices;
- export prospects of different products;
- shipping intelligence; and
- India's trade agreement with foreign countries.

The Division services are not confined to TDA products but are broad based to include all products having export potential. So also, its services are available to the entire exporting community, members, as well as non-members. The Trade Development Authority and The Trade Fair Authority of India have now been merged to form 'India Trade Promotion Organisation'(ITPO)

Export Credit Guarantee Corporation

For minimising the risk element in export business and to facilitate the flow of finance from the banks to exporters, there is an Export Credit Guarantee Corporation. In addition to the normal risk policies, the Corporation assists the exporters through special schemes such as packing credit guarantee, post-shipment credit guarantee and export finance guarantee. It is wholly owned by the Government of India and works on no profit no loss basis. To suit the varying needs of the exporters, the Corporation provides different types of covers which may be divided into the following three broad groups:

1) Standard polices issued to exporters to protect them against the risks of trading with overseas buyers on credit terms;
2) Financial guarantees issued to banks against the risks involved in providing credit to exporters; and
3) Special policies

Under its polices intended to protect the exporters against overseas credit risks, ECGC bears the main brunt of the risk and pay the exporter 90 percent of his loss on account of 'commercial' and 'political' risks.

Export-Import Bank of India

The Export-Import Bank of India was established on January1, 1982 for the purpose of financing, facilitating and promoting foreign trade of India. It extends finance to exporters of capital and manufactured goods, exporters of software and consultancy services and to overseas joint ventures and turnkey/construction projects abroad. The Bank is coordinating the work of institutions engaged in financing export and import trade.

Indian Institute of Packaging

Considering the existing deficiencies in the standard of packaging for eye-appeal and the standards of packaging for the safe transit, Government of India, in collaboration with the industry set up the Indian Institute of Packaging (IIP) in 1966.

The main objectives of the Institute are to:

- undertake research on raw materials for the packaging industry,
- keep India in step with international developments in the field of packaging,
- organise training programmes on packaging technology,
- stimulate consciousness of the need for good packaging, and
- organise consultancy services for the industry.

Its activities include effecting improvements in packaging standards and rendering testing facilities in respect of packaging.

Federation of Indian Export Organisations (FIEO)

It is an apex body providing a common coordinating platform the various export organisations in India. The two major functions of the FIEO are:

1) To act as a promotion organisation for the export of consultative services from India and
2) To act as spokesman of the export and trading houses in India.

Indian Government Trade Representatives Abroad

The institutional arrangements which have been developed and strengthened within the country are supplemented by the Indian trade representatives abroad. The trade representations in the Embassies and Consulates are continually being strengthened to enable them to effectively support the effort which is being made within the country India's commercial representatives are expected to monitor the commercial events and developments of their accreditation, identify products with export potential and other trade opportunities, study the tariff and non-tariff barriers, government procedures and shipping facilities, take initiative in cultivating specific trade contracts, undertake all publicity activities for image building, organise participation in trade fairs, department store promotions etc., give effective guidance to the trade visitors and missions, maintain a flow of timely commercial intelligence and deal with all problems of commercial complaints and bottlenecks. They also provide facilities to the Indian trade delegations and exporters visiting foreign countries, and help procure and forward samples of goods imported from other countries which are capable of being exported.

3.6 GOVERNMENT PARTICIPATION IN FOREIGN TRADE

For supplementing the efforts of the private sector in the field of foreign trade Government of India has set up a number of Government trading corporations namely, (1) The State Trading Corporation (STC), (2) The Minerals and Metals Trading Corporation (MMTC), (3) Spices Trading Corporation Limited and (4) Metal Scrap Trading Corporation (MSTC). The State Trading Corporation itself has a number of subsidiaries, namely the Handicrafts and Handlooms Export Corporation, the Projects and Equipment Corporation, the Tea Trading Corporation of India and the Cashew Corporation of India. The Mica Trading Corporation is a subsidiary of the Minerals and Metals Trading Corporation.

These corporations have provided the essential base for developing and strengthening the efforts relating to specific commodities and products and diversifying the country's foreign trade. Briefly, their activities are:

1) to arrange for exports where bulk handling and long-term contracts are advantageous,
2) to facilitate exports of 'difficult to sell' items through various devices such as linking essential imports with additional exports under barter, link and parallel deals,
3) to organise production to meet export demands and to help production units overcome difficulties of raw materials and other essential requirements to meet export orders and develop lines of export by various methods, and
4) to undertake import of such commodities where bulk purchase is advantageous.

The corporations handle actual transactions. They maintain offices abroad and function like any commercial unit in the private sector. However, the government is now reducing its direct participation in trade and therefore number of items which were earlier canalised through the government corporations have been removed from the canalised list. The new policies of the government would result in competition to the government corporations from private sector companies.

Organisational Set-up in the States

The State Government are increasingly participating in export effort of the country. Some State Government have created independent Departments of Commerce and a Minister has been put in charge of it. Some Government have also set up Export Promotion Boards and Export Corporations for stimulating export items originating from their respective States. Liaison officers have also been appointed by the States to develop export trade and maintain links with the Central Government departments and organisations. Export Promotion Advisory Committees have been established by some States under the Chairmanship of the Chief Minister or the Industries Minister.

Activity 3

You have just bought an Induction Furnace with 70 ton capacity. Determine the ratio in which assistance would be granted and process by which Metal Scrap Trading Corporation can help you.

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3.7 SUMMARY

This unit has discussed the institutional framework as it exists in India. Each of the tiers from the Department of Commerce to the Agencies for Export Promotion at state level has been discussed in detail. Their responsibilities and functions have also been brought out.

3.8 SELF-ASSESSMENT QUESTIONS

i) How has the institutional framework shaped the International Marketing environment in India?

ii) Comment upon the role of service institution in developing the Indian international trade.

BLOCK - II

UNIT IV

SOCIO-CULTURAL AND POLITICO-LEGAL ENVIRONMENT

SOCIO-CULTURAL ENVIRONMENT

Objectives

After reading this unit, you should be able to -

- define the socio-cultural environment of business
- identify the critical element of social environment
- explain the interaction between social and economic environment
- describe the social responsibilities of business and
- outline the current socio-cultural environment of Indian business and industry.

Structure

4.1 INTRODUCTION

In the previous unit we concentrated on the economic environment of business. Business is an economic activity and decision-making by the management is an economic process. However you will recall that we could not confine ourselves just to the economic environment. We talked about the interaction between the economic and non-economic environment of business. You will appreciate that the business environment is quite complex, with heterogeneous elements in the environment. These elements economic and non-economic, market and non-market, often interact with each other. A manager must understand and analyse this process of interaction. In particular, you must note that all non-economic environmental variables have economic implications, and that is why these variables, singly or jointly, affect business activity. In this unit, we have, therefore decided to dwell on the non-economic environment of business.

The present unit aims to help you define the socio-cultural environment of business identify the critical elements of the socio-cultural environment; explain the interaction between the social and economic environment; and outline some of the emerging trends in our society which have a bearing on Indian business.

4.2 SOCIAL ENVIRONMENT

Business must have a social purpose; business concerns must discharge social responsibility and social obligations and have social commitment. Otherwise, business cannot enjoy social sanction. This makes it necessary for us to understand the social environment of business. You may question: what factors constitute this environment? There are a host of factors like social values, culture, beliefs, tradition and convention, social attitudes, social institutions, class structure, social group pressure and dynamics, and what have you. The nature of social objectives and priorities, along with the set of social constraints, give form and content to several social movements. Successful business managers cannot afford-to neglect these movements, and their underlying ethos. Business ethics are very much influenced by social movements, social systems and social preferences. In a very broad sense, therefore, the social environment happens to be the culmination of forces operating from different platforms such as history, culture polity, ethics and morality, values and institutions geography and ecology, and the like. Society itself has to balance the achievements and aspirations of various individuals, groups, communities and institutions. No business can survive and grow without social harmony. Different countries, over different time periods, attain social harmony and order of different forms, through different ways and means. Thus the social environment differs over space, time and methods.

Activity 1

Suppose you encounter a foreigner who is interested to know about "Indian society". List the points of observation you would like to share with him.

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Activity 2

The same foreigner is also interested to know something about the "Indian business community". List the points of observation you would like to share with him.

1 ....

2 ....

3 ....

4 ....

5 ....

6 ....

4.3 CRITICAL ELEMENTS

Based on your experience in Activity 1 and Activity 2, you will appreciate that from the standpoint of description and analysis, it is important to begin by identifying the critical elements of any environment. You will recall that in the preceding unit we identified the critical elements of the economic environment. In the same way, we may also identify the critical elements of the sociological environment of business. These elements are:

- social institutions and systems
- social values and attitudes
- education and culture
- role and responsibility of the Government
- social groups and movements
- socio-economic order
- social problems and prospects.

This is just a suggested classification which may help you to analyse the socio-cultural environment of business.

Social institutions and systems develop through history, culture and heritage. The caste system, the joint family system, child marriage, sati and the patriarchal family are all examples of social institutions and systems. Until the recent past the caste system ensured a very simple occupational division of labour in our society. The place of the individual was very clearly defined in the social hierarchy of the joint family system where decision-making was centralised in the head of the family who commanded respect for his age and experience. The position of women and children was also defined by the then social set up.

In India today, most of these age-old social institutions are dying fast. It is because the social values and attitudes are changing very fast. The Western values of individualism have caught our imagination. Indian women no longer remain satisfied as housewives. Business does not remain confined any more within a given community or caste. Customs, traditions and conventions are no longer rigid They have become flexible. Society's view of its authorities responsibilities and delegation, its attitude towards business as a profession, towards achievement and work towards ownership and management—all have very definite implications for the sociological environment of business.

Then come education and culture as an ingredient icnt of the sociological environment. In this category you may list the attitude towards education; the need for business education; education matching the skill requirement of industry and manpower utilisation; the role of business schools and executive development programmes; education versus training; correlation between formal literacy and the level of culture; the spread of education and its the impact on business ethics; material progress and business morality; business culture and organisational culture.

At a given point of time, society has a level of achievements and aspirations. Such achievements and aspirations have to be defined clearly and categorically, and any divergence between the two has to be bridged through relentless social effort taking care of social welfare and social constraints. This is where the role of the Governments as a welfare state comes in. The Government is the apex social institution. Particularly in a democracy the Government has the very responsible function of maintaining social order and harmony in view of the interests of the majority. It is the Government which has to make sure that social progress is not handicapped by the tyranny of the majority, otherwise social tensions will mount even under democracy. Certainly, business cannot grow under social tension.

Social tension originates in groups composed of frustrated individuals. In a society individuals form groups on the basis of caste, creed, religion, language, trade and profession and similar other factors. Social groups and the social movements that they engineer are a critical variable of the non-economic environment. Some of these groups have direct business interests. Thus, consumerism, trade unionism, the cooperative movement, professional management and shareholders associations all pose challenges for business operation.

In a country like India, we have a plural society. Ours is a land of a variety of food, dress, languages, religions and culture. We also have a dual economy with the traditional (subsistence or unorganised) sector co-existing with the modern (commercialised or organised) sector. Technological dualism in India is very pronounced. Bullock carts ply on the road and the Airbus flies through the sky. All these make a very unique socio-economic order for India today. From time to time, this social order gets disturbed and modified hopefully for the better, through social movements and social-policy formulation on subjects like science and technology, ecology and forestry, family planning, animal husbandry, etc.

Social problems and prospects are just offshoots of a changing socio-economic order. You might be aware that consequent to industrialism and socio-economic development in many developing countries, the death rate has fallen faster than the birth rate, and this has resulted in an explosive growth of population. This in turn has brought about growing unemployment and poverty, poor housing and sanitation, urban congestion, pollution and increasing incidence of anti-social activities. Economists, therefore, suggest that you should always attempt a social cost-benefit analysis of industrial development. As society moves from the pre-industrial stage to the post-industrial stages of development, social benefits must out-weigh social costs otherwise the emerging new social order will prove unstable.

Activity 3

You have now some idea of the critical elements of the social environment of a country. You may have noted that we have used expressions like "socio-economic order" and "social cost benefit analysis". The point is that the economy and sociology interact with each other. It will not be difficult for you to conceive in this context an interaction Matrix. Can you now think of live Indian examples which may substantiate each element in this Matrix? To have direction, you may like to observe the kind of examples we have incorporated for some of the diagonal elements in this Matrix.

Economic → / Sociology ↓	Economic System	Economic Planning	Economic Policies/ Programmes	Economic Legislations Controls/ Regulations
Social Institutions	Bigbusiness families like the Birlas and the Tatas have provided private sector in our mixed economy			
Social Values		Panchayati Raj (at village level) upholds democratic values of joint consultation and committe decision		
Education & culture			Manpower planning is being redesigned in view of the New Education Policy. jobs delinked from degress	
Social groups				Consumer Protection Act is intended to protect the consumers
Social problems				

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4.4 UNDERSTANDING THE SOCIAL ENVIRONMENT OF BUSINESS

Surely you have not run out of your stock of examples. There are plenty of examples. Aren't there? The more you think of such examples, the more you find how complex and varied our society is. You also find how the economic and social environments react with each other . Read the following statements.

"Socio justice and economic growth must go together."

"Socio –economic problems have to be tackled in one go."

"All social movements are basically economic in content and intent".

"Social welfare is the ultimate goal of economic planning."

"All business and economic activity must be tinged with a sense of social responsibility."

"Society cannot materially progress without a significant structural development of the economy."

You must have come across thousands of statements like these. You may note that these statements are not emotional outbursts, these are facts concerning the interaction between sociology and the economy. In what follows, we would like you to familiarise your self with certain specific social developments social movements and social policy formulations so that you may work out their business implications in the Indian context. This is a task which will establish more clearly the interaction between the sociological environment and business economic activity.

Social Developments, Industrialisation Process and Management Culture

The industrialisation process in every society in the modern era can be traced to the work of a small elite group. The group which assumes leadership in the initial period of industralisation has certain general characteristics

- some knowledge of business, trade and commerce
- access to capital or saving, or ability to mobilise such resources
- thrifty habits and bourgeois spirit.

The Industrialisation Process
(The elite leadership in different countries)

The UK
The Puritan, thrifty middle class elite (the British aristocracy lived beyond is means and did not have capital or aptitude to assume leadership in business)

Japan
The feudal elite (with traditional discipline, resources from land, and a loyal work furce provided by the tenantry)

The former Sovlet Union and other Socialist Countires
A revolutionary intellectual elite (which seized the state apparatus, planned industrialisation and mobilised resources for it)

India and other ex-colonles and developing countries

Foreign, colonial elite (British capital set up the first modern industries, built up railways opened up mines, plantations etc.. it also developed the managing agency system.)

The domestic, dynastic elite (The family concerns belonging to certain castes and communities traditionally engaged in business: Vaishyas, Gujaratis, Chettiars, jains, Marwaris, Parsis, Khojas, Bhaibandhs, Suvama Baniks, etc. In this group the son succeeds the father not because of any superior professional competence but by virtue of birth; or top management is confined to close relatives. This type of entrepreneurship is true even of the small-scale enterprises, using moderrn technology.)

The multi-nationals, and their subsidiaries. (However limited, their operations have also helped the industrialisation process.)

The State as entrepreneur. The biggest entrepreneur in India till the recent past has been the Central and State Governments with investments larger than those in organised private sector).

Source: N.N. Chatterjee, 1975, Management of Personnel in Indian Industries, Allied Book Agency, Calcutta.

Each kind of industrial elite built up its own management style and managerial personnel in India.

The foreign colonial elite group and their successors the foreign firms operating in India including the subsidiaries of multinationals, used the ethnocentric or racial approach to recruiting managerial talents. Young Britons used to be recruited on contract (known as Convenanted Officers) and brought over to India to manage the various interests of companies incorporated in the U.K.. Similarly, other foreign firms recruited managers from their own race and cultural background . They have Indianised fast under the pressure of the Government, Now Indians even head the subsidiaries of some multinationals.

The same practice was followed in India by the big family concerns till recently. If the original family could not provide the talents needed, the extended family(i.e., close relatives and kinsmen) was drawn upon. Failing that, the community to which the family belonged provided the recruits. However like the foreign firms, these also gradually had to recruit professional managers who had no ties of blood or community with the owners though in family concerns such professional are rarely the real decision-makers even today.

The practice of recruiting the best talent available from the country of operations may be described as polycentric. In joint stock companies which are not controlled by family concerns and in the public sector enterprises, professionals are now gradually coming into their own. The public sector initially drew upon the civil services, but the transfer of the bureaucratic culture to business operations, by and large, proved unrewarding. The emphasis is now largely on professional talent built up from with in or recruited from the open market or drawn from the Industrial Management Pool of the Government (while it lasted). Deputationists from the IAS cadre had been given the option to get merged with the managerial cadre of the unit they had been serving.

The multinationals do try to make a geocentric approach, i.e., they try to tap any effective source available any where. But in practice, they do not often flout national sentiments in India, the preference has generally been for Indians.

It follows from the above observation that the process of industrialisation and the management style or recruitment culture are dictated by social convenience and compulsions. The history of social movements in other countries also is not different. The development of capitalist enterprises in India and elsewhere was very much conditioned by the moves and motivations of the business community—their "capitalist spirit" of "earning like a king and living like a sage". As and when the philosophy of capitalism was replaced by that of socialism, a new business culture took shape. The private profit motive was replaced by the social welfare motive. The private property rights were replaced by the social ownership—the state sector was created through the process of nationalisation. The free market price mechanism was replaced by comprehensive planning by the Central Government Historically, "neither pure capitalism nor pure socialism could survive as a stable social movement and so came the philosophy of a "mixed economy". The resultant social movement was to combine the private and public sectors, the market mechanism and centralised planning commercial profitability and social desirability. Whatever may be the nature of the mixed economy we find today in India, it has been the outcome of a long-drawn process of social development and ideological revolution. If you look back on the history of such social development (capitalist, socialist or mixed) in any country including India, you will find that corresponding to different stages of development, there developed different patterns of industry and business culture. And the culture in its turn also influenced the
6) process of social development.

Activity 4

If you are interested in the historical perspective of the socio-cultural environment of our business, you may give a quick look to some of these classics

1. D.H.Buchanan, The Development of Capitalistic Enterprise in India
2. Gunnar Myrdal, Asian Drama. Vol.II (Kalyani Publishers. 1982)
3. Maurice Zinkin, Development of the Free Asia

In these works, you may expect to find some critical but well documented observations on the operations of private enterprises in India.

Let us now move from the historical social development process to a few current social movements. with the passage of time as industrialisation proceeded either in the form of a revolution or evolution, sooner or later organised movements were engineered by various social groups to protect their own class interests. The class-conflict grew in intensity and consequent upon that grew a variety of social movements. As a result today in every country without an exception, on the industrial front we are face to face with the trade union movement, the consumer movement, the professional management movement, the shareholders' movement and so on. Let us review some of these movements in the Indian context.

The Trade Union Movement

Trade unionism is the child of industrialisation. With the growth of the industrial culture workers have felt that their socio-economic interests cannot be protected if they do not come together in some sort of organised union.

The history of the trade union movement in India dates back to the first quarter of the twentieth century. The two important landmarks were the formation of the All India Trade Union Congress (AITUC) in 1920 and the enactment of the Trade Union Act, 1926. But due to ideological differences among several socio-political groups, the movement did not gather momentum during the inception stage; it only got split from time to time. After independence the disunity in the movement was aggravated by the starting of three central organisations—the India National Trade Union Congress (INTUC) by the congress part (1947), the Hind Mazdoor Sabha (HMS) by the Praja Socialist Party (1948). The United Trade Union Congress (UTUC) by some radicalists (1949) the Bharatiya Mazdoor Sangh (BMS) in 1955 and the Hind Mazdoor Panchayat (IMP) in 1965. Despite the existence of different unions with different ideologies the trade union movement is now better organised more widespread and on a more permanent tooling.

The present position of the trade union movement may be summarised as follows - the number of registered trade unions in the country is around 25,000 of which about 3,000 are affiliated to INTUC, AITUC, UTUC and HMS. INTUC and AITUC are more popular than others. The membership of the unions submitting returns is around 50 lakhs.

The major defects of the present trade union movement may be listed as follows:

- the predominance of small sized unions—nearly 3/4ths of the unions have a membership of less than 500

- poor financial position because of the small size and also because of the small subscription.
- the absence of whole time paid officers
- leadership by professional politicians and hence political inter-union and intra-union rivalry
- illiteracy and ignorance migratory character, differences in language caste, creed and customs and hence lack of harmony and unity among workers, low wages and/productivity etc., are characteristics of Indian labour.
- preoccupation with strikes (rather than social security benefits)
- multiplicity of unions and ideologies causing a decline in the average size of unions.

It is obvious that unless the above defects are removed and the trade union movement is strengthened the socio-economic environment of business cannot be improved. The interests by employees can be protected and promoted by the creation of a labour union having a bargaining power matching that of managements. The present idea of "participative management" or waht is called "industrial democracy" participation can be successfully implemented only if the economy has strong and responsible trade unions in all spheres of activities rather than in industry alone. In a country like ours, where there is a vast unorganised sector in agriculture, agricultural unions are conspicuous by their absence. We need to (a) promote unionisation of agricultural workers and (b) curb politiciation of labour unions.

Before we conclude this section we would like to make a passing reference to the newly emerging phenomenon of managerial unionism. In India managers and officers are increasingly banding themselves into associations which are gaining the aspect of trade unionism. Such managers and officers hail from diverse organisations such as manufacturing enterprises, banks, insurance companies, universities, electricity boards, trading corporations, the merchant navy, the civil service and the like. Thus managerial unions or what may be called officers associations are growing stronger both in the private and public sectors. Such a growth and transformation in the character of unionism is suggested to be the natural outcome of the development of an economy with proliferation of the service sector. The Industrial Revolution witnessed the growth of blue collar trade unions. The post-industrial society will experience the rise of white collar unions. This is the global trend. India cannot escape it. Thus managing the work and worker is the problem of today and tomorrow; but managing the managers is the challenge of the future.

The Consumer Movement

Like the labour movement, the consumer movement also exercises a considerable influence on the socio-economic environment of business. A strong consumer movement is the sine *qua non* of a healthy household sector in an economy.

In the Indian Economy today because of imperfections in both the product and factor markets some sort of exploitation of consumers often results.

In a country like India, where a large percentage of the masses are illiterate and poorly informed, and have limited purchasing power where most of the critical goods are always in short supply and where growth for social justice is the guiding principle of national planning, the Government has a significant role in safeguarding the interests of the consumer by promoting a climate of fair competition and influencing business decisions concerning what to produce, promote, and sell.

Some legislative measures have already been taken by the Central Government to safeguard the interests of the Indian consumer. There are a wide range of enactments to protect the consumer. Some are of general application covering particular aspects of a wide range of products : other apply only to specific products. The first category consists of the Standard of Weights and Measures Act,1956, the Sale of Goods Act, 1930 the Trade and Merchandise Marks Act.1958 the Display of Prices Order.1973, the Packaged Commodities (Regulation) Order 1979, the Standard Institutions Certificate Marks Act.1952 etc. Some of the important legislations relating to particular goods and transactions are the Essential Commodities Act, 1955 the Prevention of Food Adulteration Act. 1959 the Drugs and Magic Remedies (Objectionable Advertisement) Act 1954 and the Cigarettes (Regulation of Production. Supply and Distribution) Act. 1975. Lately our Government has brought in the Consumer Protection Act 1986. Through this Act, an attempt is being made to strengthen the institutional framework to protect? The consumer at the local state and central levels. There are various institutional factors which account for growing concern about consumer protection in India.

First, the Indian Government is concerned with the protection of vulnerable sections of the community through schemes like streamlining the public distribution system. Over the years because of chronic inflation, different anti-social elements have emerged to exploit the vast majority of poor consumers through unethical trade practices like adulteration under weighment high prices, etc., of goods in short supply. The Government has therefore become more alert to protect consumers through the Defence of India Rules (DIR) the Monopolies and Restrictive Trade Practices.Act (MRTP), 1969, and the Consumer Protection Act (CPA),1986.

Secondly, the Indian business community did not till very recently bother about consumers because it operated in a seller's market. Today the market environment has changed it is now a buyer's market in several sectors at least. Unless consumers are protected against the fraudulent practices of traders long-run business interests are likely to suffer. Indian business has lately realised the social responsibility of providing customer or client service.

Thirdly, in developed urban areas the consumers themselves have become more conscious of their rights and legitimate demands. Present day consumers are not ignorant of the market environment. They are quality conscious. They are conscious of customers 'rights. They have some notion about the legitimate distribution margin of profit for each product. To protect their interests they form organisations like consumers councils, service cooperatives, consumer cooperatives, vigilance committees etc. They seek legal protection under laws like the Essential Commodities (Amendment) Act, 1974. They write in columns of "consumers grievances" or "consumers forum" "action line" etc. in magazines/newspapers.

Last but not the least, the burden on consumers imposed by our own Government has been on the increase in the last few years. In the name of fiscal discipline, the Government at various levels—central, state or local—imposes or enhances annually the tax burden. Additionally it has now become customary to announce pre-Budget hikes in administered prices of items like petroleum products, auxiliary duties on imported items, and postal and telegraph rates. Consumers' resistance to such growing additional imposts is but natural.

Owing to the factors listed above, the consumer movement has gathered considerable momentum in recent years, but it is still in its infancy. It suffers from several defects:

- lack of leadership and management
- lack of financial resources
- lack of permanent organisations, i.e., *ad hoc* character
- still confined to a few urban pockets rather than spreading to the vast rural areas where consumer resistance is conspicuous by its absence.
- politicisation of the consumer movement
- lack of consumer education.

These defects have to be removed immediately if the movement is to become strong and serve a useful social purpose. In this context, the Civil Supplies Department of the Government and organisations like consumer cooperatives and consumer councils have an important role to play.

In spite of the wide array of enactments to protect him, the consumer in India is subjected to a number of unfair practices indulged in by the suppliers of goods and services. These enactments fall short of providing adequate safeguards to consumer interests as they cover specific products or malpractices. Whatever protection is available to the consumer under these legislations is piecemeal. There is no branch of law dealing specially with consumer trade practices as such Legisiations like the MRTP Act have not really protected the vast majority of consumers. There is an urgent need today for legislative control regarding(a) misleading and deceptive advertising and (b) sale of products (goods and services) not meeting safety standards. It is the Government's commitment, along with consumers awareness which can promote a strong and healthy consumer movement in our country. To an extent, it is the consumer movement which led to the passing in 1986 of the Consumer Protection Act which we shall discuss in the next part of this unit.

Management Movement and Philosophy :Emerging Trends

After labourers and consumers, the next important group in our industrial society is constituted by the managers.

Compared to trade unionism and consumerism, the management movement in India has been relatively strong and distinct. Since Independence, one finds certain distinct trends in our corporate management philosophy and structure. Independent India inherited a structure of corporate management which was dominated organisationally by the Managing Agency System and entrepreneurially by particular business communities and among them again by a group of families of big business houses. Historically the Managing Agency System developed to overcome the problems of finance and management faced by our business and industry. Eventually, the system resulted in the growth of monopoly capitalism and concentration of economic power through practices like multiple directorships, interlocutory directorships and interlocking of funds, etc. Hence through a series of enactments upto 1969 the Government attempted to abolish the system. However, the abolition of managing agency did not really mean the end of the system of group management or the end of the domination of big business houses. In a large number of cases, the erstwhile managing agents entered into various types of service agreements with their former employers and became available to them in areas such as administrative services, financial services management consultancy and secretarial work. Some of the managing agency houses converted themselves into conslutancy organisations. In some cases, managing agency houses merged with the companies formerly managed by them thus retaining their control.

Another distinctive trend has been the Indianisation of management. Industrial development and business growth in colonial-era India owes much to European management. With the rise of Indian business communities during the inter-war and post-war periods. European management agencies were increasingly replaced by Indian managing agencies. Following Independence, our industrial development encouraged the flow of foreign management in some basic fields like steel and fertilisers. Over the years, as the country became more and more self-sustained, foreign management was replaced by Indian management. In the process, both the Government and private business houses either separately or jointly secured an increasing degree of managerial control and ownership over our business and industry.

With Indianisation, two contrasting patterns of management developed : (1) hereditary management of family-owned businesses and (2) bureuiicratic management of Government –owned businesses. By and large this contrast boiled down to a contrast between private sector management and public sector management: and this matched in a way with our philosophy of a mixed economy.

As the Indian socio-economic environment was thus gradually getting exposed to two different types of management culture, the philosophy of industrial democracy was gaining popularity in the political environment. Consequently, in recent years, "workers participation in management" has been talked about and tried in some business units. The history of participative management dates back to 1958, when the scheme of a Joint Management Councils was introduced on a voluntary basis to ensure closer association of workers in management on a formally defined basis. Workers are also serving on the Boards of Directors of all nationalised banks. On October 31, 1975, the Government introduced through a resulution the scheme of workers' participation in industry at the shop-floor level to begin with. The Central Government also appointed a few representitives of workers on the boards of management of a few public sector undertakings. Despite all these steps the impression one gathers is that participative management still remains more on idea than a reality.

There are five stages of participation: (i) informative participation, (ii) consultative participation, (iii) associative participation, (iv) administrative participation and (v) decisive participation. By and large, Indian labour is still confined to the first three stages. In fact, if participative management has to become a reality a shift is necessary from slogan to action. Further the pattern which suits our cultural environment is what Peter Drucker calls, "participative decision-thinking " (the Japanese pattern) rather than "participative decision-making " (the American pattern).

Last and perhaps the most important development in the world of Indian management is the growing tendency towards professionalisation. The idea of professionalistion of management is of recent origin. Professionalisation of management has a number of implications:

1. Management is separated from ownership though, as an individual a professional manager may own some shares of his own firm.
2. Taking up management as a career or profession involves intensive pre-entry education, and post-entry training. A professional manager is formally educated in a specialised deiscipline like finance production marketing personnel system,etc. Such education gives him "knowledge".

Then comes his on-the-job experience whereby he tries to apply his knowledge and modify it if necessary. Through experience, he acquires "skill". Finally it is through periodic training that professional manager updates his knowledge and conceptualises his skill. That is how he avoids professional obsolescence.

3. As a professional manager, he has a mental make-up and a value system which together are quite different from the "tunnel vision" of the typical owner-manager for profit.

4. A professional manager enjoys a lot of discretionary powers. He is found committed more to his profession than to his organisation, such that if he finds his present employment unsuitable for his aspirations and values, he can always take his skill and knowledge to another employer.

As for the growth and profile of the professional managers in India, whether in the public or private sector, a number of studies have already been made. Their findings are more or less the same. Most of the present professional managers come from a middle class background. They are better educated in the context of international and/or inter temporal in comparison with other managers. They are relativeiy younger.

Managers from a background of backward classes form a very small group in the private sector and are a slightly larger group(growing rapidly) in the public sector. The concept of the "barefoot manager" is still a myth: most at them are "expense account" managers aspiring to enjoy the "five star calture" and many of them still move in their narrow social elitist circle, go to the same club enjoy drinking in Light circles and have very little perception of the needs and aspirations of the common workers around them. Our professional managers are quite conscious of this status gap between themselves and the rank and file of workers. In other words, exclusiveness rather than openness characterises this culture. In such a culture the managers lend to be "benevolent autocrats" and "corrective rather than communicative and participative " except within narrow limits. On the subject of the emerging value profile of the Indian manager a researcher observes:

"Today's Indian manager is more concerned with (a) happiness contentment and peace for himself and his near and dear ones (b) achieving goals set for himself (c) a "good man" image and (d) self-actualisation. Spiritual values have decidedly taken a back seat though stark materialistic Western values like success prestige and power and money have not yet made any major inroads into his life. His elitist origin, which could have proved a handicap in the relationship with the work force because of social distance and the value gulf is no longer so because he had acquired a value system tinged with concern for genuineness in human relationships a humane attitude devotion to task concern for being diplomatic coupled with a deep regard for other people's feelings and interests. What our manager seeks from the work situation is job satisfaction credibility, competence, creativity, truthfulness and achievement success. His ethical value system is somewhat blurred; in the abstract he holds strongly to positive ethical values, whereas in concrete situations which are difficult and threatening idealism gives way to pragmatism. Nonetheless the country's interests are very much at his heart."

"In value relations the Indian manager stands somewhere midway; he has been able to realise his values moderately. Perhaps this is a healthy discontentment for in the arena of chaotic industrial life today it is seen that his prone to take a proactive rather than reactive stance, act rather than react confront rather than withdraw, assume responsibility rather than apportion blame. May be this proactive stance is the unconscious instrument through which greater value realisation will become a reality for him."

In India today, professionally trained managers are being manufactured in large numbers from a number of management institutes within and outside universities. There has been a mushroom growth of organisations imparting management education. Executive Development Programmes (EDP) are also being organised for mangement at various levels—top, middle or lower; some of the firms in the modern organised sector have started their own management training or manpower development centres. Despite all these, Indian enterprises still suffer from a mismatch between professionally qualified managers and the existing organisational culture. A strong need is being felt to Indianise management education and training programmes. Unless the management education and training programme is free from Western bias (in terms of concepts, precepts, tools and techniques), it cannot serve the requirements of Indian business and industry. But for this there is a need for a closer link between business, industry and institutes/universities. So long as this link is not established and maintained on a permanent footing the management movement cannot grow strong and healthy.

Reviewing the nature of the management movement in India, a few concluding observations may be made:

1. Professional managers as a class have gained social recognition and as a result, Indian business and industry is growing towards professionalisation of the management cadre. But the spread of the culture has not been uniform. One may, therefore, observe at least three contrasting styles of management prevailing in three distinct types of enterprises—multinationals, domestic, private sector and public sector.
2. Professional mangers are now due for legal protection—some of the recent amendments to labour laws have created certain common interests among the professional mangers at lower levels and industrial workers. These laws are 'The Payment of Bonus Act, the Payment of Gratuity Act, the Employees Provident Fund Act, the Workmen's Compensation Act, etc. The concept of "workmen" is gradually being replaced by the concept of "employee", a term which also includes the professional manager. The Janata Government, for the first time, thought of the Employment Security and Miscellaneous Provisions (Management Employees) Bill in 1975 to ensure job security to middle management.
3. Professional managers, despite have adequate knowledge and appropriate skill still do not enjoy full functional autonomy in their day-to-day operations. It is often heard that the managers in our public enterprises are subject to parliamentary control and ministerial interference just as the managers in private enterprises are subject to the directives or whims of their chief executives.
4. Lately management insecurity is on the increase. Report about suspension of bank officers airport managers, government engineers, etc., suggest that the middle level managers are no longer secure particularly if they are corrupt and inefficient.
5. As management is growing as a profession, it is getting more and more specialised. In the process, management consultancy is emerging as a new trade.

The Shareholders' Movement

In our socio-cultural environment of business the shareholders movement is a recent offshoot of the professional management movement.

Shareholders associations have been in existence since the days of company formation. But the Annual General Meetings (AGM) of most companies seem to be mere rituals to please the gods in the Department of Company Affairs and fulfil the clauses of the Company Act. For a long time, the share holders have remained blissfully unaware of their rights.

Things have changed in recent years. The shareholders are increasingly becoming aware of their legitimate rights. With the spectacular boom in the stock markets in the early eighties the companies started paying attention to AGMs.

In India we have the so-called "closely –held companies" and the "widely-held companies". In the widely –held companies management is supposed to be diffused over the representatives of a large body of shareholders. Till very recently even in widely-held companies the owners of minority shares have been occupying the top executive positions of the company and have been perpetuating the traditional family management culture. A large manority of shareholders have thus been left outside the ambit of top management; they have not enjoyed their legitimate rights of having decisive participation in management.

As someone observed in India AGMs are a corporate farce. A shareholder is supposed to make relevant statements at an AGM, but instead one finds people clamouring for gifts , refreshments and discount coupons. Thus the shareholders themselves fritter away their right to be heard. Over the years, managements have come to adopt the atttitude—"Give them a good dividend and close their mouths with a sandwich"... As long as the dividend cheque comes through periodically and the company is doing well, the overwhelming majority of shareholders rarely come to attend AGMs.

Of late, however the situation is changing. The AGMs have to be taken seriously. The share holders today are an enlightened body of investors. The gifts and meals given at the AGMs cannot buy them any longer, though those, things do have some goodwill value . Today's share holders are knowledgeable and are quite conscious of their rights. They are quite anxious to exercise their legitimate rights. If they so desire, they can supply both risk capital and effective manage ient on professional lines. In fact, they may even destabilise the existing management through takeover bids. Takeover bids as experience shows, may originate with resident Indians as much as with non resident Indians. The nominee directors (of the financial institutions) on the Board need not always support the existing management; they may have a strategic alignment with the shareholders as well. All these have now come into the limelight through a number of recent AGMs. For Escorts Chairman H.P. Nanda, the three AGMS during the early 80s and the much published extraordianry general meeting of 1984 were a rich experience. Though the Escort-Swaraj Paul affair ultimately ended as much ado about nothing it did provide some direction to the shareholders movement. In the same way, the 63rd AGM of Dharamasi Morarji Chemicals Company Ltd., lasting ten hours with a packed gathering of 400 odd share holders, is another recent example which shows that the AGM can be used to decide issues oneway or the other. You can discover many instances if you read magazines like *Business India, Business World and India Today.*

Activity 5

Read these magazines regularly and try to get some latest facts and figures concerning developments within the Indian corporate world. Choose some selected companies that interest you most.

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Reproduced on the next page is a chart which shows the size of shareholders in a few widely held companies. Additionally, you may also note that as per the latest figures of the Reserve Bank of India (RBI) the number of block shareholders has increased to nearly 30 million from a mere 6 million in 1978. It is thus obvious that the shareholders can no longer be neglected. Companies have been increasingly turning to the capital market for their financial needs. Capital raised through new issues during April-December 1996 was around Rs. 10,400 crore which means around Rs. 15,000 crore are raised currently through capital markets on an annual basis. With so much at stake, AGMS can no longer be considered a residual activity to be dispensed with on a lazy afternoon. The shareholders movement is gaining momentum and therefore, you may hope that in the near future the quality of the AGM will improve substantially. We should welcome this as a healthy development in the socio-economic environment of Indian business. Shareholders movement is partly responsible for necessary modifications in the Companies Act from time to time and in the enactment of SEBI Act, 1992.

THE MOST WIDELY HELD COMPANIES

Reliance Industries Limited	700,000	Shareholders
GNFC	422,104	"
Lohia Machines	225,105	"
TISCO	210,000	"
Gwalior Rayon	191,485	"
ITC	165,810	"
TELCO	152,000	"
J.K.Synthetics	147,861	"
Ambalal Sarabhai Enterprises	144,765	"
The Indian Rayon Corporation	118,689	"
Lipton (India) Limited	117,112	"
Glaxo	115,766	"
Hindustan Lever	108,000	"

Activity 6

Make a list of companies in India which you think are professionally managed.

Private sector companies		Public sector units	
Domestic	Foreign	Central	State

What criteria have you used in selecting you companies/enterprises/units in above list?

Activity 7

Name the national level trade unions in India and also name the political parties to which they are affiliated.

Trade Unions	Political Parties

Environmental Movement

Issues related to protection of the environment and ecology have received world wide attention not only in developed countries but also in the developing countries. Increasing concern has been expressed about environmental degradation which can risk human life and existance. Though environmental problems are not new, the scale, inspite of technological advances, on which environmental degradation has been taking place has assumed alarming proportions. For example, of the 266 mha of land considered productive in India, about 175 mha are degraded in varying degrees (arid, alkaline,saline, water logged, ravines, etc.). about 90 mha are acutely degraded, chiefly on account of a loss of tree cover and top soil, leading to floods and droughts. Similarly, the forest cover has been depleted to about 19 percent of the total geographical area, instead of the desirable 33 percent. India has only 2 percent of the forest land of the world but supports 16 percent of the world population.

The terms ecology and environment are interlinked. Ecology is the study of plants, animals, peoples, and institutions in relation to the environment. It thus refers to the interrrelationship between people, the fauna (birds and animals), the flora (plants and forests) and their physical surroundings. The eco-system embraces the sea,forests, reservoirs of water, plants, trees, flora and fauna which, in fact, comprise an eco-chain underlining their interdependence. The ecosystem is the totally of living and non-living elements in the ecological community communicating with one another and their environment. The term environment is defined as the complex of hedaphic (soil related), climatic and biotic (biological) factors that act upon an organism or a community.

It is important for us to understand the interrelationship between ecology and development. You might be aware of the rapid decline in the qualify of the environment over the recent past. Imprudent use of natural resources resulting from the developments in science and technology has led to negative consequences which have prompted many a thinker to advocate a slow down of economic growth for the sake of environmentsl protection. Modern developments in agriculture and industry have brought about fundemental changes in the consumption habits of people which have given rise to several problems—pollution of the air and water, soil erosion, deforestation, exhaustation of traditional sources of energy etc—affecting the quality of life and wen-being of human beings. Today, society faces a strage dilemma. While uncontrolled and unplanned industrial development may destroy the health of society and may have a negative impact on the quality of life, excessive concern with environmental issues may halt the process of technological and industrial growth. It is, therefore, necessary to follow a balanced approach wherein the conservation of natural resources and quality of environment complement the objectives of economic growth.

Environmental deterioration has been a matter of serious concern in India and has gained widespread attention during the last two-three decades. Environmental problems may partly be attributed to the negative effects of the process of industrialisation and economic development; they are partly attributable to the continuing state of poverty and underdevelopment. Poverty is directly linked with the growth of population. Environmental degradation takes place if development efforts do not provide the necessary life support systems. Undoubtedly, scientific and technological progresss have raised the pace of economic growth with considerable increase in the production of foodgrains and agricultural crops,and the development of the infrastructure, transport and communicator, facilities, but poverty and unemployment continue to pervade the nation's majority due to imbalances.

On the other hand, development efforts have put a continuing pressure and have imposed strains on the limited supply of natural resources, and the negative effects of development have created environmental problems.

In urban areas, more particularly in metropolitan cities, the quality of the environment is steadily deteriorating. Air pollution is increasing due to congestion of traffic and the fast increasing number of automobiles which release fuel exhausts and add dangerous pollutants like carbon monoxide, nitrogen oxide, organic vapours, lead, smoke and other particulates and non-particulate effluents to the urban atmosphere. Discharge of fly ash from therrhal power stations and emission of smote from industrial establishment in an around cities continue to increase the level of atmospheric pollution inspite of devices to regulate their impact.

The pollution of river water takes place in and around cities as well as suburban towns due to lack of sewerage,discharge of sewage, and effluents from industries which do not have adequate water treatment equipment installed. Discharge of industrial wastes and chemicals causes toxic effects and inhibits the growth of fish. Safe drinking water is not available to the majority of city dwellers due to the contamination of subsoil water on account of leaking or choked sewerage and overflowing drains. The problems of garbage disposal persists. Open garbage dumps with overflowing filth and rags are a common sight in many cities, adding to the insanitary living conditions. Contaminated drinking water and lack of sanitary facilities make people suffer from water-borne and airborne diseases.

A number of man-made chemicals are known to have harmful effects on various components of the ecosystem besides being toxic for human life. Chemicals used as pesticides and insecticides in agriculture are known to have harmful side effects when applied indiscriminatedly. Some of these when ingested by human beings are suspected to have cancer-producing effects. According to WHO'S International Agency for Research in Cancer, "there is good circumstantial evidence that 80-90- p.c. of all cancers are dependent, directly or indirectly, on environemntal factors, and at least 89 p.c. of these factors are chemical in nature."

Industrial effluents are not easily biodegradable and are often beyond the natural assimilation capacity of rivers, with the result that water bodies remain polluted, affecting the health of people. According to a survey undertaken by the Central Pollution Control Board, in 241 Class II cities spread over 17 States, about 90 percent of the water supplied is polluted.

The fragile ecosystems of the country have been disturbed in various ways. *Coral* reefs have been adversely affected by indiscriminate exploitation, mangroves have been under biotic pressure due to fishing and pollution of water caused by oil spillage from ships and coastal refineries and discharge of domestic sewage and industrial effluents. The country's unique wetlands, covering an area of 1.45 million hectares(which are rich in aquatic and bird life and provide food and shelter as well as breeding and spawning ground for marine and fresh water fish) have been confronted with problems of weed infestation, siltation, chemical and organic pollution, conversion to industrial sites, urbanisation and habitation. Out of 85 wetlands of international importance in the country, 45 percent are subject to moderate or high threats. Mountain ecosystems have also been witnessing serious pressures. The Chipko movement launched by Sunderial Bahuguna for preservation of Himalayan ecology is well known.

You would be glad to know that a rich biological diversity exists in India with the widest variety of biomass and over 75,000 species of fauna and 45,000 species of flora. Of these, according to the Union Government 79 species of mammals,44 of birds, 15 of reptiles and three of amphibians plus 1500 plant species face the threat of extinction.

Several pressure or activist groups have emerged to champion the cause of the preservation and protection of the ecology and the environment in the country. For example the "Narmada Bachao Andolan" iaunched by Medha Patkar and the cause of animal welfare and environment expoused by non-Government organisations like People for Animals (initiated by Maneka Gandhi) and KARE are well known.

Environmental Management

Environmental deterioration is a multi-dimensional problem of which resource depletion is only a part. Business leaders in general have a significant and practical role to play in managing the environment. No organisation can now sensibly ignore its Environmental obligations.

Environmental Management encompasses environmental planning, protection, monitoring, assessment, research education, conservation and sustainable use if ιesources. It can be accepted as major guiding factor for the sustainable development of the nation. It is realised that while environment problems attributable to poverty (and underdevelopment) could be tackled by more rapid development, the unintended side-effects of the process of development have given rise to many of the environmental problems confronting the nation today. Thus, to achieve the long-term goal of making development sustainable environmental and ecological imperatives need to be built into the total planning process right from the beginning. The logic is simple. The degree to which a nation can prosper depends on its productivity, i.e., the efficiency with which it is able to utilise the resources of the environment to satisy human needs and rising aspirations. This requires that, while providing for current needs, the resource base should be managed in such a manner that it achieves sustainable development in harmony with the environment.

Government Policy and Measures

You would appreciate that no civilised government could afford to neglect the problems posed by environmental degradation. While legislations were passed in the seventies and eighties aimed at conservastion of natural resources and prevention and control of environmental pollution, more concerted efforts have since been made by the Government towards these ends. The creation of a separate Department of Environment in 1980 and an integrated Ministry of Environment and Forests in 1985 at the Centre indicates the Governments recognition of the seriousness of environmental problems. While it is not possible to list all the measures taken by the Government, we shall focus our attention on some major steps taken in this respect.

A policy statement was announced by the Union Ministry of Environment and Forests in June 1992. It outlined India's National Conservation Strategy on Environment and Development. It emphasised sustainable development as the key element in die Ministry's action plan. The task set before the Ministry was "to ensure sustainable and equitable use of resources for meeting the basic needs of the present and future generations without causing damage to the environment."

Based on the above policy statement, an integrated strategy has been adopted by the Government for better protection of environment. The strategy is aimed at strengthening the existing programmes of pollution control, ensuring better disposal of solid wasies and hazardous substances,and conserving forests, bio-diversity and the rich ecosystem. All these measures form part of the National Conservation Strategy and the National Forest Policy which was formulated in December 1988 with the primary objective of ensuring environmental stability and maintenance of the ecological balance.

The Government has set up the National Afforestation and Eco Development Board(NAEB) to undertake a programme of natural regeneration in degarded forest lands in the country.

To bring about a qualitative change in the afforestation programme, a National Wastelands Development Board was set up by the Government in June 1985 with the principal aim of reclaiming wastelands through a massive programme of afforestation with people's participation.

The National Policy for Abatement of Pollution stresses on utilising economic and policy instruments for the introduction of pollution control measures. Seventeen environmentally critical and highly polluting industries have been identified by the Ministry for special monitoring and enforcement efforts. These 17 industries include sugar, fertiliser, cement, fermentation and distilleries, alluminium, petro-chemicals, thermal power, caustic soda, oil refineries, tanneries, copper smelters, zinc smelters, iron and steel, pulp and paper, dye and dye intermediates, pesticides and pharmaceuticals.

One of the major sources of air pollution is vehicular exhaust fumes. This problems has assumed serious proportions in the metropolitan cities. The Government has laid down emission norms for automobiles under the Motor Vehicles Rules, 1989. Towards reducing the pollution effect of automible exhausts, the Government has also notified that all petrol-engine cars sold in the four metopolitan cities should be fitted with catalytic converters—an efficient device to clean up exhaust emission.

The main strategy for conservation of biodiversity in the country is protection of viable habitats for wild life. The Government maintains 75 National Parks, 421 Wildlife Sanctuaries,21 Project Tiger areas and Biosphere Reserves for conservation of wildlife species and preserving genetic diversity in representative ecosystems.

Tying up the environmental issues, the Government has drawn up an Environmental Action Programme (EAP) focusing on the following priority areas:

a) conservation of biodiversity including forests, marine life and mountain ecosystems.

b) Conservation of soil and moisture and ensuring that water sources do not get polluted .

c) Control of industrial, pollution and wastes.

d) Access to clean technoligies.

e) Tackling urban environmental issues.

f) Strengthening environmental education, training, awareness and resource management.

g) Alternative energy plan.

The underlying thrust of the EAP is to strengthen the envgironmental impact assessment of the above areas through an organised system of natural resource accounting and environmental statistics.

In the next part of this unit, we will familiarise you with some details of the Environment Protection Act.

Activity 8

a) Enumurate the main causes of environmental degradation. Whom would you hold responisble for such degradation ? List some causes below:

S.No. (1)	Cause of Environmental Degradation (2)	People Responsible (3)

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b) Arrange interviews with top managers of atleast three large organisations, preferably engaged in the chemicals, pharmaceuticals or cement industry. What measures have they taken or propose to take to prevent pollution? Offer your comments.

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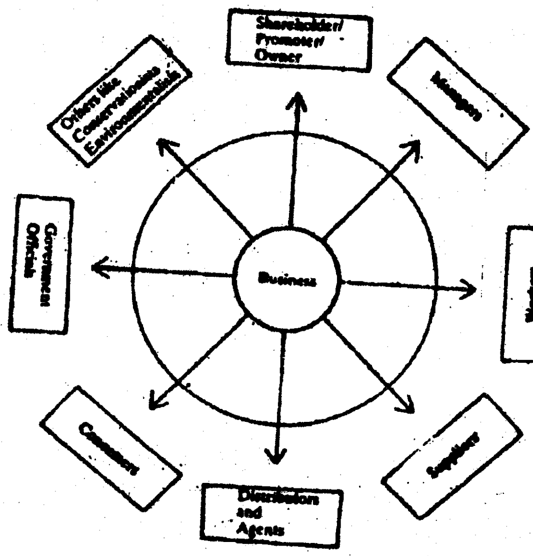
4.5 SOCIAL RESPONSIBILITIES OF BUSINESS

You have observed, how business and society interact with each other. Business exists in the context of a society. In a *(traditional) Pre-industrial* society, business transactions are negligible or nil; in that society production is mainly done for self-consumption and the need for exchange is minimum. In a *modern industrial society,* business grows by leaps and bounds; production is meant for the market; the subsistence system is replaced by the commercialised system and, therefore, exchange transactions multiply. In a *post-industrial (recent) society* business gets specialised and professionalised. With growing monetisation, both primary and secondary, the complexity of business grows manifold. Business grows in variety. Business becomes more and more service-oriented from being production – oriented. Thus as transition takes place in a society through various stages, business changes in terms of size, structure, strategy and system. On the other hand, as business changes in terms of its form and organisation, society also undergoes changes. Social values, social institutions, social order social contract, social conflict, social problems – everything changes along with a change in the business culture. In other words, business determines society as much as society determines business. Therefore, business most be socially responsible.

Over two decades ago, Peter Drucker stated in the context of American, business, "If there is one development during the last ten years that stands out above all others, it is the eagerness with which business has embraced social responsibilities. "This is true of Indian or any other national business today. It is no longer fashionable for business corporations the world over to take a gleeful pride in making money. What is more fashionable is to show that it is a great innovator, more specifically a great public benefactor and that it exists to serve the public.

From the standpoint of business, we have already identified each element of this public. They are: owners/shareholders, managers, workers, suppliers, distributors, consumers, government officials and similar social groups. All these have a stake in business and can be known as stakeholders.



Each and every social group as a very definite expectation from business. The *shareholders, promoters* and *owners* expect a fair return on their investment; unless lucrative dividends are paid, they do not want to supply venture capital for business.

The *workers* expect fair wages and bonus, otherwise they feel exploited when they produce output more in value than the input. The salaried managers likewise expect a remunerative packet of *pay* and *perks*, otherwise they do not find any incentive to work hard and service at fair prices, otherwise they feel cheated. The, *suppliers* expect a prompt settlement of their bills. The *distributors* expect after sales service as well as fair commission on sales, otherwise they do not find incentives to promote sales. The *Government* expects business to pay taxes and to be accountable for subsidies. And , importantly, there are others who are not directly concerned with business, yet they have a lot of expectations from it. These could be ordinary citizens forming themselves into clubs or associations of some type, expecting charitable donations for promoting education and culture; the ecologists who want business to minimise, if not avoid totally, pollution and degradation of the physical environment; the social workers who want business to adopt backward villages and undertake all round development of housing, health, and sanitation. There is no end to the expectations of these various social groups. The more you come up to their expectations, the more they expect from you and your business.

Business has to balance these manifold expectations and optimise a general social welfare function subject to the constraint of maintaining social harmony. This is a difficult and stupendous task and it involves a measure of social efficiency of business operations. Normally, private business enterprises do not bother about social efficiency, they are guided by the commercial profitably criterion. For them, social responsibility is more a façade and a decoration; it is mostly a means of maximising the long-run return on investment. But, for public enterprises, social desirability is an important consideration. Therefore they have to attempt a detailed social *cost-benefit analysis* of their projects and operation. Such enterprises which produce public goods and services have to maximise net so

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return. However, social responsibility does not mean that they should continue to recover losses. After all, they are not meant for supplying free or subsidised social service. Social obligations should not eclipse their economic viability, which in itself is a social purpose. Thus, even public enterprises have social as well as commercial obligations. In fact, in India we want our public enterprises to generate surpluses for development finance. The profit of a public enterprise to generate surpluses for development finance. The profit of a public enterprise is an important source of financing planned economic development. A losing public enterprise is ultimately a burden on society, and therefore is the unit is sick, even if it is a public unit, it is better to liquidate it. Such liquidation certainly would cause unemployment and hardship in the short run, but in the long run it will be good for society. Social achievements like employment creation and import substitution should never be made an alibi for an unsatisfactory economic and financial performance.

Public enterprises in a democracy like ours are accountable (a) to Parliament, (b) through audit and (c) through annual reports. Parliamentary control over public enterprises is a well established form of social control. Similarly, as an instrument of accountability; public enterprises are subject to financial audit, efficiency audit and propriety audit. Finally, a well-drafted annual report is an important medium of communication between the enterprises and the public.

Public accountably of private enterprises is also statutorily required. Very often the Annual General meeting (AGM) is an occasion where annual reports/balance-sheets can be seriously examined and the shareholders can take their public limited company to task. But this requires the shareholders movement to be organised and strong. In fact, strong trade unionism, a strong conservationist movement, and a strong consumer movement are additional requirements to enable any business-private or public, national or multinational, small or big- to discharge its social obligations and commitment.

Finally you must note that as society has expectations from business, so does business have from society. Society must also act responsibly. Social groups, through violent and irresponsible methods, may hold the business to ransom and ruin it. Ultimately, that will be a social loss. Business can discharge its responsibility, provided it enjoys some authority and support facillties. Social movements should support business by indicating right directions in the national interest. In Appendix-1 we present the Indian dilemma regarding the social responsibility of business.

Activity 9

An IDB sponsored study, first of its kind in Indian Industry, has figured out India's most excellent companies'

Private Sector	* Asian Paints Ltd.
	* Bajaj Auto Ltd.
	* Hindustan Lever Ltd.,
	* ITC Ltd.,
	* Larsen & Tourbro Ltd.
	* Reliance Industries Ltd.
Public Sector	* BHEL
	* HMT Ltd.
Co-operative Sector	* Gujarat Co-operative Milk Marketing Federation Ltd. (Amul)

the interests of all these groups or stakeholders. The business has therefore to be run in a socially responsible manner. This is necessary if the business has to survive and grow in the long run.

4.7 KEY WORDS

Social Environment: A subset of the environment consisting of and affected by social factors such as social institutions and systems, social structures and formations, social values and attitudes, educational and cultural influences, etc.

Ethnocentric: The practice of recruiting personnel for important positions from among the nationals of the country of the parent company.

Polycentric: The practice of recruiting personnel for important positions from among the nationals of the country of operation.

Geocentric: The practice of recruiting the best talent for important positions from any country (country of origin, host country or any third country), regardless of nationality.

Social Responsibility: Consideration of the impact of the firm's action on society.

4.8 FURTHER READINGS

Nadkarni, M.V., A.S,Seetharamu and Abdul Aziz, 1991, India- The Emerging Challenges Sage India.

Krishna, Sumi, 1996, Environmental Politics, Sage India.

4.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand by the socio-cultural environment of business and how is it important for business ?
2. What are the critical elements of the social environment of business ? Explain each element with examples.
3. Explain the link between social developments, the industrialisation process and the management culture. Give examples.
4. Write exhausive notes on the following with your critical comments:
   a) The Trade Union Movement in India
   b) The Consumer Movement
   c) The Management Movement
   d) The Shareholders' Movement
   e) The Environmental Movement

5 what do you mean by the social responsibility of business ? What could be some arguments for and against business assuming social responsibility ?

6 "Business must be run in a socially responsible manner". Comment on the statement in the context of Indian business.

The study is reported in Business World. Vol.5. Issue 20, December 23, 1985- January 5, 1986. Locate this reference and find out the criterial of 'Excellence'.

Activity 10

Pick up the Chairman's speech (normally it is published in the columns of the *Economic Times or the Financial Express* or any other newspaper) for any three companies listed above, for the latest year. Read them through. Now, attempt to write two lucid paragraphs, one each on:

1. Socio-cultural Environment in India
2. Economic Environment in India

Remember, different speeches may highlight different factors. Try to work out the common factors. If you undertake this activity, you will realise how the same environment may be viewed differently by different viewers.

4.6 SUMMARY

The social environment includes a host of factors like social values, cultures, beliefs, traditions, social institutions, class structure, social group pressures, or social dynamics, etc. the nation of the social objectives and priorities along with the set of constraints give form and content to several social movements.

The critical elements of the socio-cultural environment are: social institutions and systems, social values and attitudes, education and culture, social groups and movements, the socio-economic order, social problems and prospects, etc. Ever since the country became independent India has been witnessing changes on several fronts of the socio-cultural environment.

The nation has witnessed several social movements. The trade union movement has emerged as a result of the process of industrialisation. The movement aims to protect the interests of the working class by forming organised unions. A consumer movement, to protect the consumer from the exploitation of the business community in India has emerged which in a large measure is reflected in the Consumer Protection Act. Several new trends can be discerned in the Indian management movement. In the current competitive scenario, there is more emphasis on efficiency, productivity, quality and participation in management. With the investor base becoming broad, the shareholders have become conscious of their rights. This has resulted in the Government taking several measures through legislation to protect the interests of the investing public.

Over the last two decades in particular, an environmental movement has emerged on the Indian scene. The movement aims to protect the environment for the present and future generations . In spite of remarkable advances in science and technology, unfortunately there has been tremendous degradation of the environment caused to a large extent by excessive industrialisation. Business firms cannot shirk the responsibility of minimising the polluting effect and promoting the protection of the environment. The Government has taken several policy measures to preserve the ecology and environment.

It is not merely the shareholders but several other groups who are interested in the running of a business enterprise. The management of the enterprise has therefore to strike a balance between

APPENDIX-1 : SOCIAL RESPONSIBILITIES OF BUSINESS-THE INDIAN DILEMMA

(Here is an extract from the writings of the late Prof. N.N. Chatterjee, Management of Personnel in Indian Enterprises, (Ch. 1, Pt. (III), Allied Book Agency 1995, Calcutta. The piece was written about two decades ago, but is still relevant.)

"At this very mement, the environmentalists" lobby in the USA is strongly opposing the allowing of the supersonic Franco-British Concorde to fly in to American airports. The environmentalists charge that the aircraft is too noisy, burns too much fuel and is a threat to the ozone layer; the Concorde's high altitude emission of nitrogen gas could significantly affect the ozone screen that protects the earth from an overdose of the sun's ultra-violet, rays and would pose a cancer risk. In the meantime the Russian TU-144, curiously enough called Concordaki, is already operating on domestic flights".

"The Rachel Carsons and Ralph Naders of 'Post-Industrial' societies have a large audience everywhere. Of late quite a few distinguished ecologists and futurologists have visited India and debated with thier opposite numbers here the developing symptoms of the final collapse of human civilisation. One has even heard from eminent ecologists a wistful reference to Gandhian values of restraint of consumption and to the co-trustee-ship pattern in industrial management. The pursuit of 'quality of life' rather than that of material progress is also much talked about. Prof. Dennis Meadows has found a solution in what he calls 'zero-growth'. We have been waned to avoid the kind of unplanned industrial growth and urban planning such as have polluted the air, water and vegetation in large areas of Japan, the U.S., the Mediterranean and Baltic seaboards, etc. by the discharge of industrial effluents and toxic emissions. We have been told that the 'tunnel vision' of the modern industrialist for the maximisation of profit is a menace to the human race. But this warning has been countered by citing the pollution of the Volga river system and the Baltic seaboard and of the Caspian sea, large-scale deforestation creating dust bowl conditions in several regions, etc., by the industrial activities of the socialist society of the USSR.

"The global context of the disturbance of the ecological balance and the predictions of the 'doom-sayers' cannot, however, produce much of an impact on the planners of developing economies. It will be extremely naive also to assume that all will be well if the affluent societies consumed less and diverted their surpluses to supporting the developing economies in their struggle for growth. In other words, the social responsibility of business in these societies is seen as a responsibility to the world community. the highly mechanised U.S. agriculture industry perhaps does play a role here, but not out of any altruistic motive. To argue that India need not intensify her programme of industrialisation in expectation of sharing substantially in the American GNP would at best provide an alibi for not being able to mobilise our national resources for growth activities".

"This is not to say that industrial pollution has not yet become much of a problem with us. Kanpur, Bombay and Calcutta conurbations have already been studied from this angle and provide starting data. Let us have a look at our river systems. The effluents from petro-chemicals, pulp-paper, textile, distilleries, sugar factories, coal washeries hydrogenerated vegetable oil plants, tanneries, DDT factories, etc., have dangerously polluted long stretches of the Ganga and Bhagirathi, the Sone at Dalmianagar, the Deha at Siwan (Bihar), the Kali at Meerut, the Gomti at Lucknow, the Yamuna at Delhi, the Damodar in the coal belt of Bihar, the Krishna at Bhadravati (Karnataka), the Godavari at Rajahmundry, the Bay of Bengal and so on. Heavy mortality of fish has been reported from many of these areas. A few years ago; a number of people-died of drinking the polluted water of the Ganga below the Barauni Refinery. As for air pollution, a surgeon attached to the Coroner's Court of Bombay made this statement to a team of researchers recently:

I have performed till now about 4000 post-mortems. The lung of every adult indicates existence of pollutants like carbon though of course the carbon contents are not fatal. The body has got used to it. But it makes people prone to cough, bronchitis and diseases of the respiratory tract. The only people in whose lungs carbon is not found are infants below the age of 3. (Sunday Standard, August 31, 1975).

The study made by the National Environmental Engineering Research Institute (NEERI) in 1974 about pollution by auto-exhaust fumes in Bombay is also revealing."

"The Delhiwalahs' growing disgust at the long plumes of smoke emitted by a thermal power station and hanging over the large parks planned round the national monuments of Rajghat. Vijayghat and Shantivan, has yet to result in the installation of any filtration device."

"Now a major Indian dilemma is that industries which have bigger pollution potential are the very industries we need most. (e.g., fertilizer plants for the 'green revolution', thermal plants for electricity, DDT factories, chemicals factories for pest control, etc.). We cannot just do without them. But the Indian predicament is that the largest pollution potential industries are and have to be hereafter in the public sector and not in the profit-motivated free enterprise sector. All metropolitan transport systems which pollute the air in congested areas are now in the public sector and most of them have to be subsidised by the Exchequer".

"However, there is a ray of hope as new enterprises can be planned along with urban development and backward area development plans. Anti-pollution technology is also available and public sector enterprises can afford to invest in it".

"The country is also conscious of the nature of the problem and some significant steps have already been taken. the reconstituted National Committee on Environmental Planning and Coordination, for which the Department of Science and Technology provides the secretariat has shown some dynamism of late. The Central Public Health Engineering Research Institute (CPHERI) at Nagpur has developed a measure of expertise in effluent disposal and control. The Central Water (Prevention and Control of Pollution) Act of 1974 has now gone off the ground. The Bombay Smoke Nuisances Act, recently extended to Delhi, if implemented with greater zeal, could produce results. A 'Clear Air Act' is also in the offing, modelled no doubt on the UK (1952) and US (1963) Acts. India, if we act in time may not need such draconian measures as the US Federal Water Pollution (Amendment) Act 1973, or Japan's Three P-Policy' (Polluters Pay for Pollution). It is hopeful sign that at last year's, Science Congress (January 1975), a number of young scientists read valuable papers based on research data on the harmful effects of insecticides and pesticides and of industrial pollution on fresh water animal life".

"But the story of the Indian dilemma does not end here. There is a much bigger dilemma .. how to harmonise the age-llong habits and cultures of profit-earning enterprises with the requirements of social responsibility and the needs of rapid growth. Till recently, the two most profitable and least arduous private sector enterprises in India were moneylending and food-adulteration. Pure milk and ghee are now mere concepts -- particularly in urban areas. Short weighment, under-invoicing, smuggling, black-marketeering, rack-renting and various other business malpractices prevail in the profit-earning business activities - whether small, medium or large-scale. Exploitation of contract labour and bonded labour is still not under control. A large-scale private sector business enterprise may solve its conscience by 'adopting' a village or taking to landscape gardening around a new plant, or building a temple or a dharamsala but this impresses none. the roots of these maladies go deep down into the Indian soil. Modern business is supposed to be multi-allegiant -- its allegiance is to the shareholders, to the employees, to the local community and to the State. the elaborate 'Declaration on the Social Responsibilities of Business' adopted at the International Seminar held at Delhi in 1965, under the Chairmanship of the late Lal Bahadur Shastri, the then Prime Minister of India, only discussed the Indian myth of the businessman's dharma. India has a Fair Trade Practices Association at Bombay and this body has drawn up a code of Fair Trade Practices for Indian businessmen. But that was in the sixties. How many of our businessmen are even aware of this code? We have always been good at formulating excellent codes of conduct -- only the implementation has been extraordinarily feeble. One hopes and prays that at last we are beginning to make on earnest effort to implement some of them.After reading this unit, you should be able to."

You may note how relevant it is even today.

UNIT-V POLITICO-LEGAL ENVIRONMENT

Objectives

After reading this unit, you should be able to:

- *define* the politico-legal environment of business;
- *describe* the critical elements of this environment;
- *examine* the interaction between political environment and business management;
- *overview* Indian Government philosophy with regard to our industry or business; and
- *overview* various socio-economic legislations in India which are relevant for business management

Structure

5.1 INTRODUCTION

Business is an economic activity. But business managers, to be effective, must also consider the non-economic environment of business. With this assumption, we have considered the socio-cultural environment of business in the preceding unit. Now we would like you to spend some time on the politico-legal environment of business. Broadly speaking, we are still within the compass of sociology. The Government is a political institution, but it has a social purpose, it enacts and executes social policies, it exists with social consent, it provides the ways and means of maximising social benefits and minimising social costs. In other words, the Government itself has a social value and culture. You must consider the structure and style of Government and examine its impact on business. The present unit, therefore, aims to help you—

- define politico-legal environment
- understand the parameters of this environment, and
- describe the cardinal features of India's politico-legal environment.

In the modern world; business of any type and any size is often affected by Government policies, programmes and legislations. The Government has its own form, structure style and philosophy. Depending on the nature of the Government at work, business has to organise its activity the businessmen have to define their respective business strategy and business tactics. In other words, business policy decisions are designed in the realm of the Government's overall policy and the system environment.

Starting with a particular ideology or philosophy, the Government of every country formulates and executes a set of policies and programmes. Quite a few of these policies are executed through legislations. These legislations and enactments, rules and regulations systems and procedures, policies and plans, statements and announcements directives and guidelines by the Government constitute the politicio-legal environment. If you want to become a successful manager you must take stock of the relevant politico legal environment of your business and then capitalise on the opportunity available in that environment.

5.2 SOME CRITICAL ELEMENTS

The politico-legal environment of business contains a number of critical elements:

- The form of Government
- The ideology of the ruling party
- The strength of the opposition
- The role and responsibility of the bureaucracy
- Political stability
- The velocity of Government policies, plans and programmes
- Socio-economic legislations
- Politico-legal institutions

Gone are the days of *laissez fare*. Business is no longer left alone. Government intervention to some extent in business activity all over the world is a rule rather than are exception. Therefore the form and structure of the Government is a very important and decisive factor for the business sector. A couple of examples may be cited to illustrate this point. Under democracy, we have a "government of the people, by the people and for the people". People's participation is so important that even at the enterprise level we seek workers' participation in management, i.e., industrial democracy. Similarly, under a federal form of government, we tend to confine the authority of the Central Government with the functional autonomy of the State Governments and therefore, we allow both Central as well as State level public enterprises. In the same way, when we accept the principle of democratic decentralisation, we authorise even the local Government to collect some business taxes and spend money on local activities. Thus, the system of government and the structure of administration affects business. In its turn, in order to secure maximum favour from the existing Government, businessmen also create their own lobby and it is strength of this lobby which partly decides whether the Government adopts pro-business or anti-business measures.

In a democratic set up the idology of the party influences ownership, management grows in a region which is politically stable. A few decades ago, many industries and businesses moved out of West Bengal because of the Naxalite movement. Similarly a few years ago when Punjab was infested with terrorism, business came to a halt. Business ethics also depend on the political situation. During the Emergency(1975-76) the standard of our business ethics and morality did improve to an extent. In the same way, President's rule or Governor's rule in a state affects business ventures. Also, you may note that whenever the nation becomes politically unstable, the folw of foreign capital and enterprise is adversely affected, and this in turn tells on business, both national and multinational. Political stability in a nation is read not only in terms of physical events and happenings but also in terms of the stability of the Government machinery and policies in relation to business. The Government formulates and executes a number of *policies and programmes*. If the Government frequently changes its industrial licensing policy, tax policy or trade policy and the like, then it unnerves the business sector and thereby adversely affects business investment and related activities. If policies and programmes are stable then business can plan its activities, otherwise it faces a tremendous amount of what is called "non-market" risks and uncertainties. Stable policies build up business confidence and help corporate planning. This is one of the reasons why the Government of India has recently done for a long-term fiscal policy statement or a quasi-long-term Export-Import policy.

However, when policies are formulated with tremendous "speed", they come one after another though the "direction" may not be very clear. Sometimes, policies are formulated with a clear "direction" but at a snails "speed" we suffer on account of lack of "velocity" of such policies and this affects business unfavourably. Particularly in a country where there are so many distinct groups at work, such as policy-thinkers, policy-planners, policy makers, policy-executers, policy-adjudicators, and so on, the business sector often views policies with suspicion, as if all policies are meant to curb and control business. Such business psychology is not conducive to business growth. Policies once formulated have to be implemented. For effective implementation we need legislations or enactments, but more than that we need political and bureaucratic will.

Policies are statutorily enforced through laws. Various socio-economic legislations subject to which business operates constitute the legal environment. Today there are so many laws that at every turn a business man meets law; modern businessmen need legal advice constantly. Modern business is more in the nature of a "legal contract" than a "social contract". Business laws are many in number and various in form. The laws are enacted to protect the business interests of various groups in society. You may recall from the preceding unit that laws are needed to protect consumers, workers, managers, owners, shareholders and society at large. Subsequently, you will be exposed to details of business legislations suh as MRTP, FERA, IDRA and so on. It is through this set of legislations that order is maintained in the industrial economy. Industrial order and harmony is a condition for survival and expansion of business. Laws not only protect business, sometimes they also create business. Take the example of tax laws. The more the number and the more the complications of tax laws, the more will be the business of tax consultants. Thus economic legislations and business environment interact with each other.

Last but not least, you must also count the *politico-legal institutions* as a part of the non-economic environment of business. The functioning of the legislative, executive and judicial organs of the

Government affects business environment directly and indirectly. All these organs run through organisations and institutions. For example, the judiciary runs through the Supreme Court the High Court, the High Courts and the lower Courts. Unless these courts function efficiently adjudication of business matters, will be at stake. Similarly, unless the police department acts with vigilance, economic offences will increase.

The successful operation of business depends on cooperation and coordination among a number of Government departments like DGTD. DGS&D, BPE, etc., just to name a few. Sometimes, business suffers because of inter-ministerial or inter-departmental conflict. To avoid this kind of conflict, very often coordination cells are created. If these cells work, business prospers without constraints otherwise red-tapism, procedural delay, excessive centralisation, lack of dedication and absence of departmental coordination frustrate business activity.

Activity 11

Explain briefly the impact of the politico-legal environment on business organisations. Illustrate your arguments with reference to the organisation you are working for. If you are not working at present, choose an organisation you would like to work for.

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Ativity 12

Take a political map of India. Divide the states into four zones : North, South, East and West. Name the political party which is ruling each state. Do you observe any contrasting zonal difference with respect to political ideology or philosophy ? Do you observe any contrasting zonal difference with respect to pattern of industrialisation and business culture? Would you draw any conclusion on the subject of the relationship between politics and business ?

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Activity 13

Figure out some businessmen who are active members of either the Union legislature or state legislature. What are their business interests ? Critically examine the contribution of the business lobby to the national politics of India.

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5.3 GOVERNMENT MACHINERY FOR INDIAN INDUSTRIAL ECONOMY

From the standpoint of having an idea about the non-market institutional environment within which Indian industry and business operates, we may refer here to a few selected organisational set ups.

A. The Ministry of Industry

The Ministry of Industry was constituted on August 23, 1976. It comprises two Departments

i) Department of Industrial Development
ii) Department of Heavy Industry/Public Sector Undertakings.

The Department of Industrial Development is the primary Government agency for the formulation and implementation of Government's industrial policy including the promotion of industrialisation of the country in accordance with the Government's industrial policy the national priorities and the objectives of the five-year plans. The Department reviews from time to time the measures which are needed for the promotion of industialisation including balanced regional development, promotion of small-scale village and rural industries as also for securing higher employment generation and maximising production. One of the instruments employed for securing these objectives is industrial licensing which stems from the Industries (Development and Regulation) Act, 1951, and the rules made thereunder. The Act and the rules are also administered by this Department. A number of promotional, regulatory, technical and advisory functions are also discharged by this Department.

Apart from the above functions, this Department is also administering certain industries as allocated to it under the Allocation of Business rules of the Government of India.

The principal functional divisions/desks in the Department of Industrial Development are

- Secretariat for Industrial Approvals
- Policy Desk for the Formulation and Implementation of Industrial and Licensing Policies
- Industries Division
- Finance Division
- Administration and General Division

Let us describe each of them separately;

The Secretariat for Industrial Approvals is functioning as an unified agency for processing applications for (a) industrial licenses, (b) foreign collaboration, and (c) import of capital goods. This division is also an Entrepreneurial Assistance Unit for assisting entrepreneurs and for redressals of public grievances.

The Policy Desk for Formulation and Implementation of Industrial and Licensing Policy overseas the effect of the policy measures taken from time to time and formulates the changes that may be called for in the licensing policy, procedures for industrial approvals, protective measures needed for the small-scale sector reduction of disparities in regional development promotion of investment in the desired channels, etc.,

The Industries Division is concerned with promotion of industrial growth in the large, medium and small-scale sectors and for industrial productivity and industrial management. Besides, it deals with certain industries specifically allocated to the Department

The Finance Division is headed by a Financial Adviser of the status of additional secretary and handles work relating to budget and accounts, financial advice, methods and work measurement studies, etc. This division also conducts internal audit to ensure both accuracy in accounts and efficiency in operation.

The Administration and General Division deals with personnel and establishment functions and allied matters such as Career Management and Training, Vigilance, Security, Welfare, etc.

The Department of Heavy Industry or what is now called the *Department of Public Sector Undertakings* is exclusively concerned with basic and capital goods industries. One of the important activities of the Department relates to coordination with other ministries and agencies responsible for the growth of the infrastructure or of producer goods industries. An important piece of our Government's control mechanism is the CG (Capital Goods) clearance effected through this department.

There are other developmental and promotional organisations under the Ministry of Industry. The organisational set up and functions of some of these units are described below.

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The Directorate-General of Technical Development (DGTD)

The Directorate- General of Technical Development (DGTD) is the technical advisory organisation in the industrial field to various ministries/departments of the Government. It gives technical advice on matters relating to industrial technology and licensing, foreign collaboration, capital goods, requirements, import and export policy, tariff structure and other related matters in respect of most of the industries excepting iron and steel, textiles, jute, sugar and vanaspati.

The organisation has two functional wings- Engineering and Non-Engineering including Chemicals. Each wing has two Deputy Directors-Generals and a number of Industrial Advisers who look after different industrial disciplines.

Regional offices of the DGTD have been established at Chennai and Calcutta. These offices render technical assistance to entrepreneurs and advise the Joint Chief Controller of Imports and Exports, the Department of Customs and other organisations regarding import of capital goods up to the value of Rs. 20 Lakhs. In conjunction with the state directorates of industries, these also provide information to the headquarters on the progress of various schemes and provide feedback information on technology, quality upgradation standardisation and development of ancillaries.

The Technology Information Centre in the DGTD collects data on technology, R&D and consultancy. Such data are utilised in processing proposals for foreign collaboration, entrepreneurial guidance, choice of technologies etc.

The Technology Development Division of the DGTD acts as the secretariat for the Technical Evaluation Committee for examining all proposals for foreign collaboration and technical consultancy services, etc. In order to take an objective view of foreign collaboration proposals, the Technical Evaluation Committee examines thoroughly all the foreign collaboration proposals form the angle of availability of indigenous know-how and the feasibility for horizontal transfer of indigeneous technology.

The Office of the Economic Adviser

It is an attached office under the Department of Industrial Development in the Ministry of Industry. It assists in the formulation of Industrial and Import policies and renders advice and assistance on allocation of foreign exchange for the import of raw materials and other maintenance inputs.

The Office of the Economic Adviser deals with macro-aggregates such as industrial production and trends in industrial growth and capacity utilisation. The office prepares monthly reviews of industrial production and examines and monitors trends in industrial production and capacity utilisation.

Relevant issues concerning industrial finance and resource availability and mobilisation with reference to plan targets for the industrial sector are dealt with by this office. Matters pertaining to credit policy, credit planning and availability with reference to the industrial sector and specific industries are examined in this office. Fiscal proposals in general and duty levies in particular are examined keeping in view the need for stimulating investment and industrial production in the context of overall economic development

This office compiles and publishes the official Wholesale Price Index in India and also reviews trends in wholesale prices periodically. It brings out weekly and monthly indices of wholesale prices, a quarterly Bulletin of Industrial Statistics and a monthly Economic Review.

Additionally this office collects, complies and analyses information on employment of Indians and non-Indians in companies with foreign majority shareholding and of non-Indians in public and private sector companies in India. Finally the office prepares from time to time analytical notes on different aspects pertaining to the industrial sector.

Bureau of Industrial Costs and Prices (BICP)

In pursuance of a recommendation made by the Administrative Reforms Commission, the Government of India established in 1970 the Bureau of Industrial Costs and Prices (BICP). It is an attached office under the Department of Industrial Development. It advises the Government on a continuing basis on various aspects of the price structure in relation to industrial cost, cost reduction and productivity.

The Directorate-General of Industrial Contingency

The Directorate- General of Industrial Contingency (DGIC) was established in December 1976 so that industrial production in the country does not suffer on account of strikes, threats of strikes, lay-offs and lock-outs, etc. Contingency plans are drawn up on the advice of this Directorate in public sector and important private sector undertakings and the Director-General of Industrial Contingency ensures effective implementation of these plans. The Directorate keeps a close watch on the labour situation to prevent any interruption in production by getting the genuine grievances of the workers redressed by the management in time. It helps provide effective assistance from state, civil and police administrations as also from the Labour Department for the implementation of the contingency plans.

Directorate-General of Supplies and Disposals (DGS&D)

India's huge government machinery is a potentially important and growing customer. The DGS&D is the Government's central purchasing organisation. It buys all kinds of products from brooms to heavy machinery on behalf of all Central Government ministries and agencies. State, local quasi-public, statutory, and public sector may also use DGS&D, if they so wish.

Certain products (e.g., food, leather goods, coal and wooden furniture) fall outside the scope of DGS&D,.and several Government or quasi-government bodies (e.g, Air India, Indian Airlines, and the Oil and Natural Gas Corporation) do their own buying.

The DGS&D uses the following four basic contract types:

1. Fixed quantity contracts, usually termed "Acceptance to lender", call for the firm to supply a specific quantity of items at agreed –upon prices and delivery schedule.
2. Rate contracts set specified rates and a contract period but do not mention quantities. The contractor is bound to fill any order placed during the contract period.
3. Running contracts set quantity price and a fixed term of usually a year, but the ordered quality may vary usually by 25 percent of the contracted quantity. Some contracts include price variation clauses.
4. Price agreements specify prices for monthly rate of supply and serve as a standing offer to the purchaser.

Development Commissioner (Small-Scale Industries)

This is an office attached to the Ministry of Industry. It is the nodal agency to coordinate the policies and programmes for the development of small-scale industries. It provides a wide range of facilities and services including consultancy in the techno-managerial aspects to small units through the network of Small Industries Service Institutions (SISI), Production Centres, Testing Centres, Product-cum-process Development Centres, etc.

B . The Ministry of Civil Supplies

The current strategy of industrial development in India is to place heavy emphasis on heavy industry and at the same time to ensure large-scale production (or distribution) of mass-consumption goods. Production is conditioned by the availability of required inputs and, from this point of view, the purchase function is important. We have already referred to the role of the purchasing organisation which functions under the above ministry, i.e., DGS&D.

C . The Ministry of Commerce

Here is another Government organ affecting the politico-economic environment of business in India. The ministry is vested with the task of formulating and guiding India's trade policy. The ministry consists of the Department of Commerce and the Department of Textiles.

The *Department of Commerce* is the primary Government agency responsible for India's foreign trade introducing commercial relations with other countries, state trading, trade promotional measures, and regulation of certain export-oriented industries and commodities.

The functional divisions of the Department of Commerce are:

(i) Administrative and General Division; (ii) Finance Division; (iii) Economic Division; (iv) Trade Policy Division; (v) Foreign Trade Territorial Division; (vi) Export Products Division; (vii) Export Industries Division: (viii) Export Services Division and (ix) Vigilance Division.

There are a number of autonomous bodies under the Department, like Commodity Boards, Export Promotion Councils, Export Inspection Council, Trade Development Authority Trade Fair Authority, etc.

A number of public sector undertakings are functioning under the direct administrative control of the department like the State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), the Project and Equipment Corporation, The Export Credit and Guarantee Corporation, etc.

Some of the attached and subordinate offices under the Department are : (I) Office of the Chief Controller of Imports and Exports, (ii) Directorate-General of Commercial Intelligence and Statistics, (iii) Development Commissioner, Kandla Free Trade Zone, etc.

Activity 14

Suppose you are to start a new business in India. Think of any specific small-scale venture. Make a list of Government Departments, including financial institutions, which you think you may have to cantact/visit. Briefly indicate the specific purpose of your visit. (in this connection, you may consult Guidelines to Industries, Government of India).

Institutions Purpose

1. ....

2. ....

3. ....

5.4 UNDERSTANDING THE LEGAL ENVIRONMENT OF BUSINESS

For describing and analysing the legal environment of business in India, we present here briefly an overview of some specific socio-economic legislations. Some of these legislations will be taken up for a detailed discussion in subsequent units. In this unit, you should be interested in a broad overview rather than details. We may list these legislations which define the legal environment business in India:

- Company laws
- Laws relating to capital market
- MRTP (Monopolies and Restrictive Trade Practices Act)
- IDRA (Industrial Development and Regulation Act)
- Trade Unions Act
- Bonus Ordinance
- Factory Legislations
- Social Security Enactment
- Laws for Consumer's Protection

This list is not exhaustive, it is just illustrative. There are many more legislations which are important from the stand point of business and industry in India.

A. Company Laws

In the present politico-legal environment, company laws include represents the principal laws affecting the organisation and management of corporate business. Originally this law used to be concerned with joint stock companies only; but today its scope has increased. It covers different types of companies- their incorporation, their constitution, their management and even the manner of their dissolution.

The history of our company law dates back to 1850. Based on the British model, it had a modest beginning; it was only concerned with the registration of joint stock companies. Changes were introduced subsequently in 1860, 1866 and 1913 closely reflecting changes in the British law from time to time such as the introduction of limited liability. The Companies Act, 1913, had some special provision to take care of the Managing Agency System but without much success. The Act came under vehement criticism during World War II when there were serious complaints of malpractices and manipulations in company formation and management. Eventually, the advent of Independence, the adoption of the Constitution with its Directive principles of State Policy and the acceptance of the socialistic pattern of society as our goal further highlighted the need for revision of the 1913 Act. Based on the recommendations of the Bhabha Committee (1950), the Companies Act was thoroughly amended in 1956. The objectives of the Companies Act, 1956, are listed follows-

- minimum standard of business integrity and conduct in the promotion and management of companies
- full and fair disclosure of all reasonable information relating to the affairs of the company
- effective participation and control by shareholders and the protection of their interests
- enforcement of proper performance of their duties by the company management
- the state's powers of intervention and investigation into the affairs of companies regarding the interests of the shareholders and public.

A number of amendments were introduced in the Act of 1956 from time to time particularly to bring an end to the Managing Agency System. Such amendments were effected in 1960, 1963,1969 and 1970.

The word "company" as it has come to mean in the context of the Indian Companies Act refers to a business organisation with features of a) a corporate personality, b) limited liability, and c) transferability of shares. In our law, there are three basic type of companies: (I) Companies limited by shares popularly known as "limited companies" (ii) Companies limited by guarantee, popularly known as "guarantee companies", and iii)Companies with unlimited liability, which is more of theory than practice Each of these three types may again be termed as either public company or private company. The general presumption in our Act is that a company is a "public company" unless it is clear from its constitution that it is a "private company". A private company is defined to be one which

i) restricts the right to transfer its shares,

ii) limits the number of its members to fifty, excluding present or past employees, and joint shareholders being counted as one member, and

iii) prohibits any invitation to the public to subscribe for any share or debenture of the company.

The Act lays down a simple procedure for conversion of private company into a public company. Additionally, there is a category of deemed public companies: if 25% or more of the paid-up capital of a private company is held at any time by one or more corporate bodies, it would be "deemed" to have become a public company, subject to certain restrictions.

Then there is a classification entitled "holding" and "subsidiary" companies. The former controls the composition of the Board of Directors of the latter or it controls more than half of the voting power of the latter or the latter is a subsidiary of another company which itself is a subsidiary company of the holding company.

There is another concept introduced by our Companies Act. This is the concept of "Government company", i.e., a company in which not less than 50% of the paid-up capital is held by the Government, Central or State or both.

There are special provisions for foreign companies. A "foreign company" is one which is incorporated outside India, but which has an established place of business in India.

Given the definitions of various types of companies, our Companies Act seeks to provide for a certain degree of ultimate control to the shareholders, to democratise company management and also to prevent certain known malpractices in company management. For example, the Act contains provisions for Government control over the appointment and remuneration of managing directors, whole-time directors and managers. The Act also places certain restrictions on loans made or guarantees given by one company to another. The Act is thus directed-against practices like interlocutory directorships and interlocking of funds. The Act also contains a few provisions for the maintenance of proper books of account.

A significant development in the context of Indian company laws was incorporated in the ***Companies (Amendment) Act, 1974***. With this enactment, the process of gradual tightening of the Government's control over the functioning of joint stock companies seemed to have reached a climax. Some important amendments are enumerated below:

1. A large number of functions hitherto performed by High courts are now transferred to the Central Government or the Company Law Board.
2. A new definition of "group" in Section 2 (18A) has been introduced in line with a parallel amendment of Section 2 (g) of the MRTP Act so as to tighten control over business.
3. Some explanation of the definitions of managing agents, secretaries and treasurers has been suggested by which the activities of the former managing agents (as consultants or advisers) can be controlled.
4. The definition of "deemed" public limited companies has been enlarged so as to restrict the operation of private limited companies.
5. The new Section 108A imposes restrictions on the transfer or acquisition of shares of groups, firms, etc, under the same management.
6. The new Sections 187C and 187D provide for investigation into the beneficial ownership of shares.
7. The new Sections 205A and 205B provide *inter alia* for unpaid dividends to be transferred to a special unpaid dividend account in a scheduled bank and after three years, if still unpaid, to the general revenue account of the Central Government.
8. Section 217 provides for the inclusion of the name of every company official drawing a Salary of Rs. 3,000 per month in the Board's Report before the annual general meeting.
9. Section 324 is amended to put a ceiling on the number of companies where a person or firm can hold appointment as auditors. This ceiling is twenty where the companies have a paid-up share capital of less than Rs, 25 lakhs each. In any other case, not more than ten out of these twenty should be companies each of which having a paid-up share capital of Rs. 25 lakhs or more.
10. Section 269 was amended to make prior approval of the Central Government to the appointment of managing directors and whole-time directors in public companies obligatory, even in the case of reappointment and not only first appointment, as previously.
11. There is a new Section 294A under which the Central Government has taken powers to prohibit the appointment of sole selling agents where the demand for the goods produced by a company is substantially in excess of the production or supply of such goods.

12. Section 314 strengthens the restrictions on the appointment of partners or relatives, etc of directors of private companies and makes prior approval of the Central Government to such appointment obligatory.

13. The amendment inserted in Section 383 makes it obligatory for companies with a paid-up share capital of Rs. 25 lakhs to have a whole-time secretary.

14. Section 408 was amended to strengthen the Government's power of intervention to safeguard minority interests, or the public interest. Now the Government can appoint an unlimited number of directors in public companies.

A few other important changes were made through the **Companies Amendment Act of 1977:**

- it authorised the Central Government to grant exemption to companies from the operation of Section 58A which restricted the acceptance of deposits from the public
- it empowered the company to donate up to Rs. 50,000 for charitable purposes or for employees' welfare in a General Meeting

It empowered the Company Law Board to enforce its order as the degree of a court of law.

It may be mentioned that strict company enactment, with of course necessary flexibility and fairness are consistent with the emerging trends in our socio-economic environment. These trends and tendencies may be recounted. First, the growth of big business at the national and multinational level has to be properly regulated and directed. Secondly, the growth of corporate giants such as SAIL, BHEL, ONGC, FCI and STC was created a challenging sector of Government companies. Thirdly, the social responsibility of business today is to protect the interests of all: shareholders workers, consumers, managers the community and the Government. In view of these factors, the new amendments in our Companies Act seem to be quite appropriate, but we must remember that amendments by themselves do not guarantee the successful operation of the law.

Recently Proposed Changes

A working Group was constituted by the Government of India to suggest changes/modifications in the Companies Act 1956. Based on the recommendations of this group, the Government introduced in early May 1997 a Draft Companies Bill in Parliament. The main points of the Companies Bill are as follows:

- The total sections have been compressed from 678 to 457, and the total number of Schedules from 15 to only 3.
- The bill proposes a substantial reduction in the depreciation rate of plant and machinery from 5.15 percent to 4.75 percent in case where the "straight line" method is followed and from 15 percent to 13.91 percent where the "written down value" method is followed. This will have the effect of prolonging the lifespan of plant and machinery for depreciation purposes.
- It restricts corporates in issuing inter-corporate loans and investment up to the maximum of 60% of their paid-up capital and free reserves or 100 percent of free reserves, whichever is higher.
- The corporates can buy back their own shares or other specified securities out of free reserves, securities premium account, or from the proceeds or prior issues floated specifically for the purpose of buy back. Thus, a company can issue other forms of securities like debt or preference shares

or even non-voting shares, to buy back the voting shares, thereby maintaining the same level of floating stock but not the voting shares.

- It proposes to reduce the period of payment of dividend from 42 days tô 30 days of the rate of declaration.
- A company cannot invite deposits in case it has defaulted in the repayment of any prior deposit or part thereof or any interest thereon in accordance with the terms and conditions of such deposits.
- A director proposed for appointment will be considered to be disqualified if he is guilty of contravention of the provisions of the Securities and Exchange Board of India unless a period of 3 years has elapsed from the date of his conviction.
- The bill seeks to rationalise the classification of companies. The provision with regard to deemed companies is sought to be deleted.
- It proposes the recruitment age for whole - time directors, managing directors, or managers of a company at 60 years, and for directors at 70.

The Draft Bill has drawn widespread applause from the Chambers of Commerce and Industry for addressing contemporanous issues being faced by the corporates which it seeks to resolve in a pragmatic and result-appointed manner. It has been claimed that the bill provides for greater flexibility, self-regulation by companies and ensures transparency.

B. Capital Market

Having discussed the Companies Act, we shall now present the main points of some important laws relating to the functioning and operation of capital markets in India.

The Securities Contracts (Regulation) Act, 1956

The Securities Contracts (Regulation) Act (SCR ACT) 1956 is designed to regulate the functioning of stock exchanges in India and to prevent undesirable transactions/dealings in securities. The Act provides for: i) recognition of stock exchanges subject to fulfilment of certain conditions relating to membership and rules and bye-laws; ii) general control over trading method and practices; iii) regulation of contracts and options in securities and iv) procedures relating to listing of securities by public companies.

A **Stock exchange** has been defined as a body of individuals, whether incorporated or not, constituted for the purpose of assisting regulating or controlling the business of buying, selling, or dealing in securities. There are at present 21 recognised stock exchanges functioning at various places in the country. While some stock exchanges may be recognised on a permanent basis, others may be on a temporary (but extendable) basis. The 21 stock exchanges are located at: Bombay, Ahmedabad, Calcutta, Madras, Delhi, Hyderabad, Indore, Bangalore, Cohin, Kanpur, Pune, Ludhiana, Guwathati Mangalore, patna, Jaipur, Bhubaneswar, RajKot, Vadodara, Coimbatore, and Meerut. In addition, a National Stock Exchange of India, with headquarters in Bombay has also been set up. The National Stock exchange (NSE) has all-India jurisdiction. After the establishment of the Securities Exchange Board of India (SEBI) under the SEBI Act 1992, certain powers which were earlier exercised by the Central Government under the SCR Act have now been transferred to SEBI.

Every stock exchange must have rules approved by the Central Government/SEBI.

Securities and Exchange Board of India Act,1992

Promulgated as an ordinance on January 30, 1992, the SEBI Bill was passed by both Houses of Parliament and became effective on April 4, 1992.

The objectives of the SEBI Act are to develop the securities market on healthy and orderly lines and to provide adequate protection to investors. To this end, it is necessary to promote a market which ensures:

Fairness : The market must promote integrity in dealings, a high standard of conduct and good business practices.

Efficiency : The market should be professionalised and well informed, offering high standards of service at reasonable cost.

Confidence: the market must inspire confidence in both investors and issuers to actively participate in and rely more on the security market.

Flexibility: The market should be resilient innovative and continuously responsive to the needs of all market participants.

The capital market in India has witnessed tremendous growth in the recent past. There is increasing participation by the investing public. It is, therefore, imperative to sustain the confidence of investors by protecting their interests. The Government has vested SEBI with necessary statutory powers to deal effectively with all matters relating to the capital market. SEBI has been established on the pattern of the Securities and Exchange Commission (SEC) of the USA. The headquarters of SEBI are located in Bombay (Mittal court, B Wing, 1st floor, 224, Nariman Point, Bombay- 400 021)

The SEBI has been constituted as a body corporate having perpetual succession and a common seal, with powers to acquire, hold and dispose of property, both provable and immovable, and to contract. It can sue or be sued in its own name. The Board consists of: I) A chairman to be appointed by the Central Government, II) two members from among the officers of the Ministries of the Central Government dealing with finance and law to be nominated by the Central Government; III) one member from among the officers of the Reserve Bank of India, to be nominated by the RBI ; and IV) two other members appointed by the Central Government. Subject to the provisions of the Act, it is the duty of the Board to protect the interests of investors in securities and to promote the development of and to regulate the security market by such measures as it thinks fit. With these objects and features, the board has been entrusted with the following functions:

a) Regulating the business in stock exchanges and any other securities markets.

b) Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to public issues, trustees of trust deeds, registrars to public issues, merchant bankers underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner.

c) Registering and regulating the working of collective investment schemes including mutual funds.

d) Promoting and regulating self-regulatory organisations.

e) Prohibiting fraudulent and unfair trade practices relating to securities markets.

f) Promoting investors education and training of intermediaries of securities markets.

g) Prohibiting insider trading in securities.

h) Regulating the substantial acquisition of shares and the takeover of companies.

i) Calling for information from undertaking inspection, conducting inquiries and audits of, the stock exchanges and intermediaries and self-regulatory organisations in the securities market.

j) Performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulations) Act, 1956, as may be delegated to it by the Central Government.

k) Levying fees or other charges for carrying out the purposes of this section.

l) Conducting research for the above purposes.

m) Performing such other functions, as may be prescribed.

SEBI Guidelines for capital Issues : With the repeal of the Capital Issues (Control) Act, 1947, the guidelines, notifications, circulars etc, issued by the office of the Controller of Capital Issues have become defunct. The companies are free to market issues of capital in any form they like, at any price and subject to such other terms and conditions as they may decide. However, such companies are required to conform to the Guidelines issued by the SEBI on June 11, 1992, called the "Guidelines for Disclosure and Inventors' Protection". After those guidelines were issued, several clarifications have been issued on these guidelines. These guidelines are presented in Annexure-2.

Over-the –Counter Exchange of India (OTCEI)

The term "Over-the Counter" is an anachronism. It has coined at a time when securities were traded over the counter of different dealers from their inventories. However, nowadays the over-the-counter market is a way of doing business rather than a place. It is a way of trading securities other than at an organised stock exchange. Trading of securities is carried on by brokers and dealers who are scattered over different locations and regions through a network of telephones telegraphs, teletypewriters, telex, fax and computers. Thus, with the help of the communication network, with which every dealer-broker is linked, the prices are arrived at and investors are allowed to detect among competing market makers. A market maker quotes two-way prices at which the member/dealer is willing to buy or sell a standard quantity of scripts which will be continuously quoted for a certain period, say, three months.

Thus, over-the-counter (OTC) markets are envisaged as a flood as security trading system equipped with an electronic or computer network through which nationally and Internationally scattered buyers and sellers can conduct business more efficiently and economically.

In India OTCEI has been promoted by the UTI, ICICI, IDBI, ICFI, LIC, GIC and its subsidiaries, SBI Capital Markets Limited and Canbank Financial Services Limited. OTCEI has been incorporated as a company under Section 25 of Companies Act, 1956, which means that it cannot distribute its income among its members by way of dividend; instead it has to use its income for furthering its objectives.

The basic objective of creating OTCEI is to provide a securities market to enable small/start-up companies with potentially viable green field ventures to obtain their capital requirements from investors to whom such investment would be acceptable but who would also like to have some liquidity for their investment.

Need and Objectives of OTCEI : At present, the stock exchanges function as a single door market in which the securities of companies engaged in different industries and trades of varied sizes are listed with identical qualifying criteria and are traded simultaneously in the same trading hall. The result of this is that while big and important companies receive all the attention, the large bulk of companies, particularly the new and small companies, remain unnoticed and, consequently, their shares remain largely untreated. According to one estimate, only 10 percent of the listed scrips are regularly traded on Indian stock exchanges. Thus the liquidity of the scrips of small companies tends of suffer.

The OTCEI aims at creating a stock exchange which will:

i) provide facilities to small companies to raise funds from the capital market in a cost effective manner;

ii) provide a convenient and efficient avenue of capital market investment for small investors;

iii) strengthen investors confidence in the market to provide the best prices to investors;

iv) ensure transparency, redress investors, complaints, unify the country's security market to cover even those places which do not have a stock exchange; and

v) provide liquidity to both shares and debt securities.

Features of OTCEI

OTCEI is remedy for investors who face problems like lack of liquidity or price information, delayed settlement, etc. The salient features of OTCEI are:

Accessibility: Counters are opened at different locations and interlinked by computer communication systems. Initially, counters were opened at Bombay and have now been opened at other places also. A public notice is given as to the availability of counters where trading takes place. Facilities for trading are available at the counters of the sponsor and the market maker whose names and addresses are given in the new issue application form attached to the offer for sale documents and with all the dealers of OTCEI.

Ready Liquidity : The compulsory market making by the sponsor for every scrip ensures that buy and sell quotes are available every day for a period of 3 years. After the initial period of 3 years, another market maker takes over.

Investor Registration : For the purchase and sale of securities, every investor has to obtain an "invest OTC Card". Application for such a card can be made at any of the counters of OTCEI at the time of making an application for the new issue on the OTCEI. In fact, the share application form includes the necessary details to be filled in for obtaining "invest OTC Card"

Ringless Trading: Trading does not take place on any specific floor of a stock exchange. The members and dealers open counters at various places where investors can purchase and sell the listed securities.

Price Display : In a traditional stock exchange, the investor has no means of verifying the price at which the transaction was effected by the broker. The OTCEI continuously displays current prices on screens installed at each OTC Exchange counter to enable the investor to make on-the-spot decisions for the purchase or sale securities.

Authorised Dealers: All members and dealers are authorised and approved by the OTCEI and their list is available to the public.

Instant Execution of Orders : The investors orders are executed immediately. If there are no buyers or sellers on the OTC Exchange, the market maker shall deal with the investor.

Information About the Company : The compulsory market maker carries out research on the scrip sponsored by him and, hence, all vital information pertaining to the company is readily available

. OTCEI has prescribed certain Guidelines for listing of securities at OTCEI which are given in Annexure 3. In addition, SEBI have also issue Guidelines on issue of shares through OTCEI which given in Annexure 4.

Activity 15

a) Distinguish between a regular stock exchange (like Bombay Stock Exchange or Delhi Stock Exchange) and OTCEI. What is the rationale of establishing OTCEI ?

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b) Meet atleast 10 individuals, i.e., members of the public who have invested their saving/surplus money in shares, debentures or other securities which are dealt with on stock exchanges.

i) When did they feel interested in such investments for the first time?

ii) What has been their experience as investors, particularly with regard to investment in equity shares (new issues or secondary market shares).

iii) Are they aware of OTCEI? How many of them traded through OTCEI and through National Stock Exchange of India? Present your findings and discuss with your colleagues?

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c) Arrange interviews with finance managers of atleast three public limited companies and discuss with the present state of the capital market in India and the prospects of improvement.

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C. Foreign Exchange Regulation Act (FERA)

In the present day Indian politico- economic environment FERA has emerged as a very important piece of legislative control over (a) the activities of multinational businesses; (b) the flow of foreign capital technology and managerial enterprise; and (c) foreign collaboration and joint ventures, In short, FERA regulates the and flow of foreign investment in India.

Foreign exchange control in India was introduced for the first time in the Defence of India Rules, 1939. Then came the *Foreign Exchange Regulation Act, 1947,* as the basic law of exchange control and as the main legal instrument regulating the operation of foreign controlled companies in India. This Act was in 1957 and 1965 . A major change was effected through the Foreign Exchange Regulation (Amendment) Act 1973. The new Act came into force with effect from January 1, 1974. The main features of this Act suggested a host of guidelines for foreign business in India are as follows:

1. All branches of foreign companies (except airlines and shipping companies) seeking approval under FERA have to convert themselves into Indian Companies.
2. A minimum permissible foreign shareholding limit of 74 percent will be allowed to companies which are either engaged in manufacturing of certain listed items under the 1973 Industrial Policy or predominantly export-oriented or using sophisticated technology or tea plantations, or engaged in trading not exceeding 25 percent of ex-factory value of the production or having a turnover of less than Rs. 5 crores.
3. A permissible foreign shareholding of 40 percent will be allowed for companies engaged in "other manufacturing items", construction and consultancy trading companies plantation companies (other than tea), and other miscellaneous activities not mentioned in the guidelines.
4. The explanation to the guidelines also contains a provision that if a company is 100 percent export-oriented, a foreign shareholding exceeding 74 percent may be allowed depending on the merits of each case.
5. Airlines and shipping companies, which are excluded from the provision of Section 29 of the Act, will be treated on a reciprocal basis.
6. Banking companies, which are also excluded, will be governed by guidelines issued by the Reserve Bank of India and Banking Department.

The guidelines listed above were further revised in August 1976 to assist the Reserve Bank of India in administering Section 29 of FERA (1973). The main features of the revised *FERA Guidelines 1976* were as follows:

1. If the activities of a company under Appendix I, together with activities requiring sophisticated technology and exports, account for not less than 75% of its total annual turnover such a company will be allowed to continue its activities subject to the condition that it will increase Indian participation, within a specified period, to not less than 26 percent of the equity capital of the company.

2. If the activities of a company under Appendix I together with activities requiring sophisticated technology and exports account for not less than 60 percent of the total annual turnover, such a company will be allowed to continue its activities, subject to the condition that it will increase, with in a specified period, Indian participation to not less than 49 percent of the equity of the company. In such cases a condition will be stipulated that the company concerned should undertake to export a minimum of 10 percent of its total annual turnover within a period of two years commencing from the date of approval by the Reserve Bank of India.
3. If the exports of a company account for more than 40 percent of the total annual turnover, such a company will be allowed to continue its activities subject to the condition that it will increase, with in a specified period, Indian participation to not less than 49 percent of the equity of the company.
4. Cases of companies coming with proposals for substantial exports could be considered on merits for a higher level of equity participation provided such participation is in the overall interest of the economy of the country.
5. The limit of Rs. 5 crores for permissible trading activity by multi-activity companies will be applicable only in the case of trading activities.
6. The ceiling of 25 percent of the ex-factory value of the annual production for permissible trading activity by multi-activity companies will be raised to 40 percent and 60 percent respectively in the types of cases mentioned in (2) and (3) above.

Foreign investments and enterprises which are branches or subsidiaries of foreign companies as well as joint ventures involving foreign collaboration (financial, technical or managerial) are subject to all the laws governing Indian enterprises- the MRTP Act, the Companies Act, the Income-tax Act, the Industries (Regulation and Development) Act, etc., as well as FERA. To a casual observer, it appears that control is stricter over foreign companies than on Indian companies. This observation is not quite correct. Every independent nation State has the right to design its business and industrial policies primarily in view of the national interest.

The emerging national interest of the Government has been to encourage Indianisation where feasible and attract foreign capital, technology and enterprise wherever desirable. It is realised that foreign investment does play an important role in generating income, employment and out put; it helps the transfer of technology and managerial skill. In sum, foreign investment exposes the economy to what the economists term "external economy effects" as well as the domestic "multipier effects" (both primary and secondary). While recognising these effects, the Government of India is determined to make sure that the flow of foreign capital and technology does not stand in the way of our "self-sustained economic growth"; and, therefore its basic policy has been one of strict selectivity towards private foreign investment and foreign collaboration.

The fundamental error of FERA policy has been to treat the introduction of Indian equity shareholding in foreign companies as an objective in itself. This has led to the folly of compelling them to finance their business in India with our scarce rupee capital without any increase in our power of regulation or improvement in the quantum or quality of foreign Investment in India. In fact, it is argued that shareholding is not the best method of regulation; FERA survives on the platform of myth: perhaps, this is the reason why there has of late been a tendency towards liberlisation of FERA.

As mentioned above the FERA Act of 1973 reflected the requirements of a highly regulatory system. The recent changes in economic policy, especially the liberalisation of the industrial sector and the moves to open up the economy through changes in trade policy and encouragement of foreign investment, have made it necessary to modify several provisions of the Act to bring them in line with current economic realities. Accordingly, it was announced in the Budget speech of 1992-93 that the Government proposed to introduce comprehensive amendments to the Foreign Exchange Regulation Act.

In pursuit of these objectives and pending legislative changes, some important steps were taken in 1992 to reduce the rigours of FERA through certain notifications issued by the Reserve Bank of India. Various facilities were extended to foreign/FERA companies on the appointment of technical and management advisors, opening of branches, acquisition of immovable property, borrowing of money or acceptance of deposits, etc. Facilities were also extended to non-resident Indian, Indian companies and residents for the opening of foreign currency accounts in India following the introduction of partial convertibility of the rupee on current account since March 1, 1992. Notifications were also issued exempting non-resident Indians returning to the country from making a declaration on their arrival in India regarding their assets abroad and from the requirement of prior approval for the acquisition of immovable property in India.

An amendment to Section 29 of FERA, effected on January 29, 1992, frees FERA companies from any limits imposed on their non-priority sector operations. This amendment also enables FERA companies to take up any trading, commercial and industrial activities, as also acquire any company in India or acquire any company in India or acquire shares of any company without obtaining RBI permission.

Further, FERA companies have been permitted to use their trade mark, accept appointment as agent or technical or management advisers, borrow and accept deposits from the public, open branches and laison offices, acquire and sell immovable property provided the proceeds are not remitted abroad, and export goods on a rental, hire or lease basis as long as these goods are reimported after the expiry of the contract.

They have also been granted freedom to invest and disinvest their stocks at the market price. Earlier, the price at which these companies were allowed to sell their stocks was decided by the Controller of Capital Issues.

FERA was further amended in 1993 through the Foreign Exchange Regulation (Amendment) Act 1993. Some of the important changes brought about by this amendment are as follows:

i) Restrictions regarding assets here by non-residents have been abolished.

ii) Restrictions on import and export of currency and bullion have been removed.

iii) Hospitality to non-residents on visits to India has been allowed.

iv) The power of the Central Government to acquire foreign securities for purposes of strengthening the foreign exchange position has been done away with.

v) Restrictions on the holding of immovable property outside India have been eased.

vi) Restrictions on FERA companies in the matter of borrowing funds or raising deposits by them in India as well as taking other or creating any interest in business by way of transfer from a person resident in India in their favour have been simplified.

vii) Restrictions on persons resident in India associating with themselves or participating in concerns outside India have been done away with.

viii) Restrictions on the appointment or certain persons and companies as agents or technical or management advisers in India have been done away with.

ix) Restrictions on the establishment of places of business (branch of offices or a liaison office) in India have been removed.

x) Prior permission for foreign nationals before taking up employment in India has been done away with.

xi) Restrictions on the acquisitions, holding, etc., of immovable property in India have been removed.

xii) Restrictions on booking of passage outside India and restrictions on foreign travel have been done away with.

Currently, a question is being raised in several business circles whether we really need a legislation like FERA. The focus of FERA has been on conserving foreign exchange and controlling its use which have lost much of their validity in the present scenario.

D. The Sick Industrial Companies (Special Provisions) Act 1985 (SICA, 1985)

It is unfortunate that many of our industrial units, both in the large and small sectors, have fallen sick. The ill effects of industrial sickness are all-pervading Industrial sickness results into loss of production, loss of employment, and loss of revenue to the Central or State Governments. Besides, investible funds of banks and financial institutions get locked up. The increasing incidence of industrial sickness has drawn the attention of economic planners and industrial researchers. It is necessary to revive and rehabilitate the potentially viable sick industrial companies as quickly as possible. It is equality imperative to salvage the productive assets and realise as much money as is possible and pay back loans advanced by banks and financial institutions by liquidating the non-viable sick industrial companies. The Sick Industrial Companies (Special Provisions) Act 1985 was enacted to address the problem of industrial sickness. The objects of SICA are:

i) securing the timely detection of sick and potentially sick industrial undertakings;

ii) speedy determination, by a panel of experts, of the preventive, ameliorative, remedial and other measures which need to be taken with respect to such companies;

iii) expeditious enforcement of the measures so determined;

iv) providing for matters connected with or incidental to the above mentioned objectives.

BIFR and its functions

Under the Act, the Central Government constituted the Board for industrial and Financial Reconstruction (BIFR) with effect from January 12, 1987. BIFR is a quasi-judicial body. It consists of experts in various relevant fields with powers to enquire into and determine the sickness in industrial companies and devise suitable remedial measures through appropriate schemes or other proposals and for proper implementation thereof.

BIFR is empowered to look into all matters relating to industrial sickness including:

i) institutional finance;
ii) rehabilitation of sick industrial companies;
iii) amalgamation of sick industrial companies with other industrial companies;
iv) revival of sick industrial companies;
v) sale/lease of part or whole of the undertaking of sick industrial companies;
vi) liquidation/winding up of sick industrial companies; and
vii) other allied matters.

The BIFR has been vested with powers to institute the necessary enquiries to determine if or not the company is sick. If the BIFR comes to the conclusion that the company has become sick it can either give reasonable time to the company concerned to make its net worth positive or it can devise suitable measures, including change of managements, reduction of share capital, sale or leasing out of a part or the whole of an undertaking or its merger with a healthy unit. By way of warning to unscrupulous managements, the Act also contains a provision that if BIFR is satisfied that a person has been responsible for diversion of funds or for managing the affairs of the company in a manner detrimental to the interests of the company than the BIFR can direct banks and financial institutions not to extend any financial assistance for a period of ten years to such a person or to a firm in which such a person is a partner or to a company in which such a person is a director.

The expression "sick industrial company" has been defined under the Act to mean an industrial company (being a company registered for not less than 5 years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

Who can make a reference in respect of a sick company?

Reference can be made to the BIFR (Board for Industrial and Financial Reconstruction) by any of the following agencies if it has sufficient reasons to believe that the industrial company under reference has become a sick industrial company:

1. The Board of Directors of the sick company
2. The Central Government
3. Reserve Bank of India
4. A State Government
5. A Public financial institution
6. A State-level institution
7. A scheduled bank.

A Reference by the Board of Directors is mandatory and therefore must be made; otherwise, penal consequences are attracted. However, reference by persons listed at (2) to (7) above is optional.

Operating Agency

Operating agency means any public financial institution. State-level institution, scheduled bank or any other person as may be specified by general or special order as its agency by the Board for Industrial and Financial Reconstruction (BIFR).

The following have been specified as operating agencies :

1. The Industrial Credit and Investment Corporation of India Limited (ICICI).
2. The Industrial Finance Corporation of India (IFCI)
3. The Industrial Development Bank of India (IDBI)
4. The Industrial Reconstruction Bank of India (IRBI)
5. The State Bank of India(SBI)
6. The Central Bank of India.
7. The Bank of India (BOI)
8. The Bank of Baroda.
9. The Punjab National Bank (PNB)
10. The Canara Bank.
11. The United Bank of India, and
12. The Indian Bank.

Potentially Sick Industrial Company

SICA 1985 for the time provided for identification of potentially sick industrial companies to provide for timely treatment and care before they reach the stage of no return. The criterion for identifying a potentially sick industrial company has been spelt out. A potentially sick industrial company is one whose accumulated losses, as at the end of any financial year, have resulted in erosion of 50% or more of its peak net worth during the immediately preceding four financial years.

Winding up of the Sick Industrial Company

Where the Board, after making inquiry and after consideration of all the relevant facts and circumstances and after giving an opportunity of being heard to all concerned parties, is of opinion that the sick industrial company is not likely to make its net worth exceed the accumulated losses within a reasonable time while meeting all its financial obligations and that the company as a result thereof is not likely to become viable in future and it is just and equitable that the company should be wound up, it may record and forward its opinion to the concerned High Court.

E. Monopolies and Restrictive Trade Practices (MRTP) Act 1969 (MRTP Act)

The Monopolies and Restrictive Trade Practices (MRTP) Act has its genesis in the Directive Principles of State Policy embodied in the Constitution of India. Article 39 (b) and (c) thereof lays down that the State shall direct its policy towards ensuring;

i) that the ownership and control and material resources of the community are so distributed as best to subserve the common good, and

ii) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

The Objectives of the MRTP Act are:

a) To prevent concentration of economic power to the Common detriment and control of monopolies;

b) To prohibit monopolistic trade practices; and

c) To prohibit restrictive trade practices and unfair trade practices.

Monopolies usually benefit a few and cause detriment to many. Monopolies have a tendency to restrict competition with the result that the monopolistic concerns have a hold on the prices of commodities in the market which ultimately results in the exploitation of many at the hands of a few.

With the initiation of the market economy and the consequent liberalisation since 1991,this objective has been substantially diluted. The MRTP (Amendment) Act, 1991, has omitted provisions regarding the Central Government's permission for substantial expansion, establishment of a new undertakings, mergers, take-overs, etc. Establishments howsoever big or small, are now fee to expand, or establish new undertakings, or effect mergers. Consequently, the strategic alliance between Godrej Soap and Proctor and Gamble could not be questioned. Likewise, the merger of Hindustan Lever and TOMCO, though objected to by certain quarters including the employees of TOMCO, was allowed by the Supreme Court.

However, checking the concentration of economic power still remains one of the objectives of the MRTP Act but only in so far as a large undertaking is likely to result in the practice of monopolistic, restrictive or unfair trade practices. Sections 27 and 27 A of the Act in such cases empower the Central Government to order the division of an undertaking or severance of an inter-connection on a recommendation by the MRTP Commission after due inquiry in this regard.

Under the Act MRTP Commission has been set up. The Commission is to consist of a Chairman and not less than two and not more than eight other members.

The Act empowers the Central Government to appoint a Director-General of Investigation and Registration (DGIR) and as many. Additional Joint, Deputy or Assistant Directors - General of Investigation and Registration for making investigation for the purposes of the Act and for maintaining a register of agreements as needed. The MRTP Commission acts as a body protecting the interests of the consumers. The commission can enquire into monopolistic, restrictive or unfair trade practices. It has the powers of the civil court and can call in any person for examination, etc., can make enquiries and pass a final order in matters related to restrictive and unfair trade practices. It has the power to make an enquiry and express an opinion on matters relating to monopolistic trade practices, division and severance of inter-connection. It can grant temporary injunction and award compensation.

Monopolistic Trade Practices.

Any trade practice which leads or is likely to lead to any of the following effects is regarded as a monopolistic trade practice:

i) Unreasonably high price;

ii) Unreasonably high cost of the production of goods or the provision of services;

iii) Unreasonably high profits;

iv) Prevention or reduction of competition;

v) Limited technical development;

vi) Limited capital investment; and

vii) Deterioration in the quality of goods.

The role of the MRTP Commission in regard to control of monopolistic trade practices is investigatory and advisory. The Commission, on initiation of an inquiry, merely investigates the practice and submits its report to the Central Government. It is only the Central Government which is vested with the power to pass an appropriate order on receipt of the report from the Commission.

Any inquiry into a **monopolistic trade practice** can be initiated by the Commission:

i) on a reference made to it by the Central Government;

ii) on its own motion, on receipt of any information that the owner of any undertaking is indulging in any trade practice which may be a monopolistic trade practice or upon a knowledge that monopolistic trade practices prevail in respect of any goods or services;

iii) on an application made to it by the DGIR; and

iv) if during the course of its inquiry into restrictive trade practice, the Commission finds that the owner of any undertaking is indulging in monopolistic trade practices.

Restrictive Trade Practices

The term **restrictive trade practice** is defined to mean a trade practice which has or may have the effect of preventing, distorting or restricting competition in any manner and in particular if it -

i) tends to obstruct the flow of capital or resources into the stream of production; or

ii) tends to bring about manipulation of prices or conditions of delivery, or to affect the flow of supplies in the market relating to goods or services in such manner as to impose on the consumers unjustified costs or restrictions.

Every-agreement falling within the one or more of the following categories is deemed to be an agreement relating to restrictive trade practices and is subject to registration under the Act:

- Refusal to deal
- Tie-up sales
- Exclusive dealing
- Concert in prices and terms and conditions of purchase or sale

- Discriminatory dealings
- Resale price maintenance
- Territorial restriction/restrictions or withholding of output or supply
- Controlling manufacturing process
- Boycott
- Agreement having the effect of eliminating competition/competitors etc.

The MTTP Commission can enquire into any restrictive trade practice whether the agreement relating to the practice has been registered or not. The Commission may enquire into the practice on its own initiative or in response to specific complaints by consumers or consumers' associations or on a reference made by the Central or State Governments or an application made by the Director-General.

Unfair Trade Practices

An unfair trade practice has been defined under the Act to mean a trade practice which for the purpose or promoting sale, use or supply of any goods or for the provision of any services, adopts any unfair method or unfair or deceptive practice, including: i) bargain sale, ii) bait and switch selling, iii) offering gifts or prizes with the intention of not providing them and conducting promotional contests, etc.

The Commission may inquire into any unfair trade practice which may come before it for inquiry. If, after such Inquiry, the Commission is of opinion that the practice is prejudicial to the public interest, or to the interest of any consumer or consumers generally it may, by order, direct that:

a) the practice shall be discontinued or shall not be repeated (that is, pass a cease and desist order).
b) Any agreement relating to such unfair trade practice shall be void or shall stand modified in respect thereof in such a manner as may be specified in the order,
c) Any information, statement or advertisement relating to such unfair trade practice shall be disclosed, issued or published, as the case may be, in such manner as may be specified in the order.

The Monopolies and Restrictive Trade practices (MRTP) Commission has lost much of its teeth which were provided mainly to curb concentration of economic power. There has been a substantial increase in the number of cases taken up by the MRTP Commission on allegations of companies resorting to restrictive trade practices. But cases alleging violation of clauses relating to market dominance, etc., have been very few. A large number of companies have got deregistered following the announcement of relaxations in the Act. This deregistration trend is interpreted as a clear induction of the big houses gradually getting out of the MRTP Acts net.

F. Consumer Protection Act,1986

There has virtually been a tradition of exploitation of consumers in India due to shortages and the sellers' markets. The consumers as buyers always had a poor bargaining power. Manufacturers and traders often follow unfair and unethical practices. Though many legislation have been enacted, they have failed to provide any effective protection to consumers due to lack of effective implementation. It is common knowledge that a number of deaths take place every year due to food adulteration, spurious liquor, and contaminated/substandard medicines, etc. Many manufacturers and traders, including multinationals, indulge in unethical practices. They make tall claims for their products which turn out to be false. The service sector is no exception to unethical practices and allurements.

To check the onslaught on consumers, a host of legislations had been enacted from time to time. These include Sale of Goods Act, 1930; Essential Commodities Act, 1955; the prevention of Food Adulteration Act, 1954; Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980; Standards of Weights and Measures Act, 1956; Agricultural products, Grading and Marketing Act (AGMARK), 1937, Indian Standards Institution Certification Act, 1952; MRTP Act, 1969,etc.

MRTP Act acquired the elements of consumer protection legislation with the amendments in 1984 when unfair trade practices were brought in its fold. However, inspite of these changes in the MRTP Act, the need was felt for a more comprehensive consumer protection legislation. As a consequence, the Consumer Protection Act, 1986 was born. It is described as a unique legislation of its kind in India to offer protection to consumers. The Act was designed after an in-depth study of consumer protection laws and arrangements in the U.K., the U.S.A., Australia and New Zealand. The main objective of the Act is to provide better protection to consumers. Unlike other laws which are punitive or preventive in nature, the provisions of this Act are compensatory in nature. The Act intends to provide simple speedy and inexpensive redressal to consumers grievances.

Other salient features of the Act are :

- It applies to all goods and services unless specifically exempted by the Central Government.
- It covers all sectors whether private, public or co-operative.
- It confers certain rights on consumers.
- It envisages establishment of consumer protection councils at the Central, state and district levels whose main objects are to promote and protect the rights of consumers.
- The provisions of this Act are in addition to and not in derogation of the provisions of any other Act.

"Consumer" under the Act means any of the following persons:

A person who buys any goods for a consideration which has been paid or promised or partly paid and partly promised or under any system of deferred payment. The term includes any other user of such goods when such use is made with the approval of the buyer.

The expression "consumer" however does not include a person who obtains such goods for resale or for any commercial purpose.

A person who hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment. The term includes any other beneficiary of such services with the approval of the first mentioned person.

Addition, the Act is understood to include the following persons as "consumers":

Persons allotted plots or houses by a housing and development board/authority (e.g., DDA).

Patients receiving medical treatment in a Government hospital, however, there is a contrary judgement also on this point.

Patients getting treatment at a private nursing home.

Persons selling/purchasing shares to / from a share broker.

User of services (like electricity, telephone, telecommunications, etc.) from public/private utility bodies or agencies.

Rights of Consumers : For the first time in the history of consumer legislation in India, the Consumer Protection Act, 1986, extends statutory recognition to the rights of consumer. The Act recognises the following six rights of consumers:

1. Fight to safety, i.e., the right to be protected against the marketing of goods and services which are hazardous to life and property.
2. Right to be informed, i.e., the right to be informed about the quality, quantity, potency purity, standard and price of goods or services, as the case may be, so as to protect the consumer against unfair trade practices.
3. Right to choose, i.e, the right of access to a variety of goods and services at competitive prices. In case of monopolies, say, railways, telephones, etc., it means right to be assured of satisfactory quality and service at a fair price.
4. Right to be heard, i.e, the consumers, interests will receive due consideration at appropriate forums. It also includes the right to be represented in various forums formed to consider consumers' welfare.
5. Right to seek redressal, i.e., the right to seek, redressal against unfair practices or restrictive trade practices or unscrupulous exploitation of consumers. It also includes the right to a fair settlement of the genuine grievances of consumers.
6. Right to consumer education, i.e., the right to acquire the knowledge and skill to be an informed consumer.

Who can File a complaint

Any of the following persons may file a complaint under the Act,

1. The *consumer* to whom such goods are sold or delivered or agreed to be sold or delivered or such service provided or agreed to be provided.

The expression "consumer" means:

A person who buys any goods or hires, avails of any services for a consideration. It is, however, not necessary that the consideration must have been paid. The person shall still be regarded as a consumer where either the whole consideration is promised to be paid in future or it has been paid partly and the balance is promised to be paid in future. The term also includes:

(i) a buyer under any system of deferred payments;

(ii) any other user of goods or services provided such use is made with the approval of the buyer.

The expression "consumer" does not include a person who obtains such goods for resale or for any commercial purpose.

1. **Any recognised consumer association** namely, any voluntary consumer associated registered under the Companies Act, 1956, or any other law for the time being in force. It is not necessary that the consumer is a member of such an association

2. **One or more consumers**, where there are numerous consumers *having the same interest*, with the permission of the District Forum, on behalf of, or for the benefit of, all consumers so interested.

3. **The Central or State Government.**

What complaints may be lodged

A complaint may relate to one or more of the following.

(i) that an unfair trade practice or a restrictive trade practice has been adopted by any trader;

(ii) that the goods bought by him or agreed to be bought by him suffer from one or more defects;

(iii) that the services nired or availed of or agreed to be hired or availed of by him suffer from deficiency in any respect;

(iv) that a trader has charged for the goods mentioned in the complaint a price in excess of the price fixed by or under any law for the time being in force or displayed on the goods or on any package containing such goods;

(v) that goods which will be hazardous to life and safety when used are being offered for sale to the public in contravention of the provisions of any law for the time being in force requiring traders to display information in regard to the contents, manner and effect of the use of such goods.

How to file a complaint

There is no fee for filling a complaint before any of the aforesaid bodies.

The complainant or his authorised agent can present the complaint in person.

The complaint can also be sent by post to the appropriate forum/commission.

The complaint should be addressed to the president of the forum/commission.

A complaint should contain the following information:

(a) the name, description and address of the complainant;

(b) the name, description and address of the opposite party or parties, as the case may be, as far as they can be ascertained;

(c) the facts relating to the complaint and when and where it arose;

(d) documents, if any, in support of the allegations contained in the complaint;

(e) the relief which the complainant is seeking.

The complaint should be signed by the complainant or his authorised agent. A minimum of four copies of the complaint should be filed.

Consumer disputes and redressal agencies

To provide simple, speedy and inexpensive redressal of consumer grievances, the Act envisages a three-tier quasi-judicial machinery at the district, state and national levels Consumer disputes agencies, established under the Act, have a hierarchical pattern similar to the judiciary. The following redressal agencies have been established at various levels:

a) **District Forum:** A District Forum is set up by the State Government for each District. Each district Forum is headed by a District Judge with two other members. The District Forums have jurisdiction to entertain complaints where the value of the goods or services and the compensation claimed does not exceed Rs. 5 lakhs.

b) **State Commission :**A State Commission is set up by the State Government for the respective State. The State Commission is headed by a Judge of a High Court and has two other members . the State Commission has jurisdiction to entertain complaints where the value of goods or services and compensation, if any, claimed exceeds Rs. 5 lakhs but is less than Rs. 20 lakhs. The State Commission also hears appeals against the orders of the District Forums with in the State.

c) **National Commission:** A National Commission is setup by the Central Government. the National Commission is headed by a judge of the Supreme Court and consists of four other members. The national Commission has jurisdiction to hear complaints where the value of goods or services and compensation, if any, claimed exceeds Rs. 20 lakhs. It also hears appeals against the orders of any State Commission.

Liberalisation and Consumer Protection: A liberalised economic regime it must be stated, is in itself a way of protecting the interests of consumers. Liberalisation affords the consumers an opportunity of choosing from a wide range of products and services, and this, coupled with competition, brings in sharp focus the fundamental aspects of caveate empotor Liberalisation encourages domestic manufactures to produce goods comparable to international standards. Unlike the protected regime of the past when manufacturers had almost the licence to charge arbitrary prices, they are now constrained to charge competitive or reasonable prices due to the greater play of market forces. With the advent of the Consumer Protection Act, 1986 and a liberalised economic regime, manufacturers and traders are expected to exercise due caution; the goods and services offered should be true to the description in terms of weight, content and quality.

G. The Environment Protection Act, 1986

The constitution of India requires every citizen of India to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures. The Directive Principles of State Policy contained in the Constitution direct the State to endeavour to protect and improve the environment and to safeguard the forests and wild life of the country.

The Environment Protection Act, 1986, came into effect in November 1986 and is in addition to the two allied Acts, viz., Water (Prevention and Control of Pollution) Act, 1974, and Air (Prevention and Control of Pollution) Act, 1981.

The objective of the Act is to provide for the protection and improvement of the environment and matters connected therewith. The law covers not only land and water or air but all aspects of the environment.

Environment includes (i) water, air and land, and (ii) the interrelationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organisms and property. **Environment pollutant** means any solid, liquid of gaseous substance present in such concentration as may be or tend to be injurious to the environment. Environment pollution means the presence in the environment of any environment pollutant.

Under the Act, the Central Government has general powers to take measures for protecting and improving the quality of the environment, and preventing, controlling and abating environmental pollution. It can constitute, by order the necessary authorities to whom it can delegate the required powers. Further, it has powers to appoint officers with such designation as it thinks fit for the purpose of the Act. It can make rules to regulate environmental pollution. The Government can call for information from any person, officer, State Government or other authority to furnish information etc., in relation to its function under the Act.

Environment Audit Report: As a result of introduction of Rule 14 in March 1992 in the Environment (Protection) Rules, 1992, every person carrying on an industry, operation or process requiring consent under Sec. 25 of the Water (Prevention and Control of Pollution) Act, 1974, or under Sec. 21 of the Air (Prevention and Control of Pollution) Act, 1981, or both or authorisation under the Hazardous Wastes (Management and Handling) Rules, 1989, issued under the Environment (protection) Act, 1986, is required to submit, beginning –1993, an **Environment Audit Report** for the financial year ending March 31 to the concerned State Pollution Control Board on or before the 15th day of May every year.

H. A Few Other Legislations

Here is a reference to a few other legislations which have a direct or indirect bearing on the business environment in India.

1. The Essential Commodities (Amendment) Act, 1974. It provides for stricter enforcement of the provisions of the Act and stringent punishment for economic offenders under the Act. It is particularly directed against anti-social elements like hoarders, profiteers, smugglers and black-marketeers.
2. The Trade and Merchandise Marks Act, 1976.
3. The Patents Act, 1970.
4. The Urban Land (Ceiling and Regulation) Act,1976.

There are other legislation relating to :

i) abolition of bonded and contract labour

ii) redemption of past indebtedness

iii) regulation of moneylenders' activities
iv) rent control
v) provision of minimum wages
vi) employee's state insurance and social security schemes
vii) settlement of industrial disputes
viii) trade union activities and organisation
ix) cooperative credit, marketing, etc.
x) control of prices and public distribution
xi) anti-pollution (of water, air, etc.)
xii) restriction on dividend payments.

Activity 16

Suppose you are a factory Manager engaged in some Manufacturing process which is highly labour intensive. Make a list of Government legislations, other than those which have been discussed in this unit, which will be of direct relevance to you. For example, you consider **factory legislations** and social security legislations

1	....	7	....
2	....	8	....
3	....	9	....
4	....	10	....
5	....	11	....
6	....	12	....

Activity 17

Can you also briefly recall from the unit the legislations protecting workers and consumers and list them? Do these legislations hamper business autonomy and efficiency?

1	....	1	....
2	....	2	....
3	....	3	....
4	....	4	....
5	....	5	....
6	....	6	....
7	....	7	....
8	....	8	....

5.5 SUMMARY

The politico-legal environment of business consists of several critical elements, e.g the nature and form of government, the ideology of the ruling party, the strength of the opposition, the role and responsibility of the bureaucracy, political stability, the effectiveness of the Government, its plans and programmes, the socio-economic legislations, and politico-legal institutions, etc. In spite of all the policies of liberalisation followed by several countries, the need for some kind of government intervention in economic affairs will always be felt.

The policies of the Government are reflected in socio-economic legislations which have a direct bearing on the functioning of business firms. A thorough understanding of socio-political legislations therefore is imperative for business enterprises. It is also necessary for business enterprises to be fully conversant with the existing Government machinery for dealing with the industrial economy.

There are several legislations with which either business firms in general or a certain class of business firms are intimately concerned. The Companies Act is concerned with the regulation of corporate business enterprises. A thorough understanding of company laws is therefore necessary for corporate managers.

The Securities Contracts (Regulation) Act seeks to regulate the functioning of stock exchanges in India and prevent undesirable transactions in securities. The Securities and Exchange Board of India Act aims at developing the securities market in India on healthy and orderly lines and is meant to provide adequate protection to investors. SEBI has wide-ranging powers. It has issued Guidelines for capital issues, etc. Over the Counter Exchange of India (OTCEI) is a floorless security trading system (or market) equipped with an electronic network through which the buyers and sellers scattered all over the nation can conduct business more efficiently and economically. The basic purpose of creating OTCEI is to provide a securities market to enable small/start-up companies with potentially viable green field ventures to obtain capital from investors who like to have liquidity for their investments.

The foreign Exchange Regulation Act (FERA) purports to regulate dealings in foreign exchange and securities, import and export of currency and to conserve the foreign exchange resources of the country. Its primary purpose is to regulate foreign companies. The relevance of FERA in the present economic scenario is being questioned.

The Sick Industrial Companies (Special Provisions) Act (SICA) aims to secure timely detection of sick and potentially sick industrial undertakings and to provide for suitable machinery for speedy recovery of such enterprises. Under the Act a Board for Industrial and Financial Reconstruction (BIFR) has been created with powers to inquire into and determine the sickness of industrial companies and devise suitable remedial measures for their proper implementation.

The Monopolies and Restrictive Trade Practices Act (MRTP) came into force in 1969 with the objectives of preventing concentration of economic power to the common detriment and control of monopolies, and to prevent monopolistic, restrictive and unfair trade practices. With fundamental changes made in 1992, its main objective of preventing concentration of economic power has been practically done away with. It has now become more a law to regulate the undesirable practices of manufacturers and traders, and to protect the interests of the consumers.

The Consumer Protection Act is meant to provide protection to consumers. It provides for necessary machinery for speedy redressal of consumer disputes/grievances.

The Environment Protection Act is meant to provide for the protection and improvement of the environment. The law covers land, water, air and other aspects of the environment.

Thus, you will find that a comprehensive legislative framework exists in India for protecting the interests of investors, consumers and society in general. What is required is the proper enforcement and effective implementation of these laws.

5.6 KEY WORDS

Politico-legal Environment : A subset of the environment consisting of politico-legal institutions, legislations, form of government and prevailing ideologies, values, attitudes and style of functioning of the bureaucracy etc.

Companies Act: An Act to guide and regulate the organisation, functioning, and management of corporate business.

Securities Contracts (Regulation) Act: An Act designed to regulate the functioning of stock exchanges in India and to prevent undesirable transactions in securities.

Foreign Exchange Regulation Act: An Act to regulate the dealings in foreign exchange and securities, import and export of currency, and to conservation of the foreign exchange resources of the country and other related matters. It is concerned with the regulation of the foreign companies.

The Sick Industrial Companies (Special Provisions) Act, 1985 (SICA,1985): An Act to secure timely detection of sick and potentially sick industrial undertakings and to work for their speedy recovery, etc.

Monopolies and Restrictive Trade Practices Act: An Act to prevent concentration of economic power, and to prevent monopolistic, restrictive and unfair trade practices. The objective of preventing concentration of economic power has since been significantly diluted.

Consumer Protection Act: An Act to protect the interests of consumers and to provide for consumer disputes settlement machinery.

Environment Protection Act: An Act to provide for the protection and improvement of the environment (covering land, water, air and all aspects of the environment).

5.7 FURTHER READING

Dasgupta, A and Sengupta, N.K. 1989 *Government and Business*, Vikas Publishing House, New Delhi.

5.8 SELF-ASSESSMENT QUESTIONS

1. In what ways does the politico-legal environment in a country affect business firms ? Explain.
2. Explain the critical elements of the politico-legal environment of business citing relevant examples.
3. Write a note on the Government machinery for the industrial economy in India.
4. What changes are proposed in the Draft Companies Bill 1997 in relation to the Companies Act 1956 ? Discuss the rationale of the proposed changes.
5. What are the objectives of MRTP Act ? what fundamental changes have recently been brought about in the Act and why ?
6. The "Foreign Exchange Regulation Act (FERA) has outlived its utility". Do you agree ? why or why not ?
7. Write notes on the following:
   a) Sick Industrial Companies (Special Provisions) Act, 1985
   b) Consumer Protection Act, 1986
   c) The Environment Protection Act, 1986
   d) The Securities Contracts (Regulation) Act, 1956
8. What are the objectives behind the establishment of SEBI ? Briefly explain the functions and powers of SEBI ?
9. "The best protection to consumers is the full and fair play of market forces" Comment.

UNIT VI

ECONOMIC ENVIRONMENT OF BUSINESS

6.0 Objectives

After reading this unit, you should be able to -

- *define* what you mean by "environment".
- *classify* the complex environmental variable on the basis of objective criteria
- *identify* the critical elements of economic environment of business
- *analyse* the interactions between economic and non-economic environment
- *explain* the impact of economic environment on business management; and
- *illustrate* your understanding of economic enviornment with reference to the Indian business situation.

Structure

6.1 INTRODUCTION

You may have a variety of reasons for studying this course, but the main reason, we presume, is to become a successful manager. Your success or failure as a manager depends on a number of factors and these factors may not always be within your control very often such factors constitute your work environment. These include your job, your department, your organisation, your nation and the world around you. After all as a manager you do not function in a vacuum. You exist and operate within and not without an environment. Therefore, as a manager when you think, or take decisions, You cannot neglect the limitations of your environemnt. Just think for a while and then answer. Don't you arrive at decisions after examining the possible reactions from the environment in which you are placed? Say, as a marketing manager, would you not study your market environment before launching a new product? Or, as a finance manager wouldn't you studyhow the capital and money markets of the country are structured and organised before deciding on the sources and uses of your funds? Or as a personnel manager wouldn't you care to find out the rules and regulations laid down by the government on subjects like reservation before undertaking recruitment and selection of your required staff? When you have answered these questions, you will discover that all your answers are in the affirmative: "Yes, I would". You can't do'without thinking, about your enviornment. As a business manager, you have to constantly evaluate your business environment.

This opening unit aims to set you thinking about these ideas. It aims to help you to precisely define "environment", classify your business environment on the basis of some criteria; identify some of the critical elements of economic environment of business establish the nature of interaction between economic environment and business management; and analyse the interaction between economic and non-economic enviornmental variables.

In pursuing these aims and objectives, our focus will primarily be on the Indian environment of businss. We shall try to identify, describe and analyse the Indian situation to understand its impact on our business. Our ultimate purpose is to train our business managers to face the macro-level environment of business. As managers, wherever you are, be it in the public or the private sector, you have to remain alive and alert to your environment so that you are successful in your day-to-day business operations.

6.2 ENVIRONMENT OF BUSINESS

The term "environment" refers to the totality of all the factors which are external to and beyond the control of individual business enterprises and their managements. Environment furnishes the macro-context, the business firm is the micro-unit. The environmental factors are essentially the "givens" within which firms and their managements must operate. For example, the value system of society, the rules and regulations laid down by the Government, the monetary policies of the central bank, the institutional set-up of the country, the ideological beliefs of the leaders, the attitude towards foreign capital and enterprise, etc., all constitute the environment system within which a business firm operates. These environmental factors are many in numbers and various in form. Some of these factors are totally static, some are relatively static and some are very dynamic - they are changing every now and then. Some of these factors can be conceptualised and quantified, while others can be only referred to in qualitative terms. Thus, the environment of business is an extremely complex phenomenon.

The environmental factors generally vary from country to country. The environment that is typical of India may not be found in other countries like the USA, the (former) USSR, the UK, and Japan. Similarly, the American/Soviet/British/Japanese environments may not be found in India. There may be some factors in common, but the order and intensity of the environmental factors do differ between nations. What to say of countries, the magnitude and direction of environmental factors differ ove regions within a country and over localities within a region. Thus, one may talk of local, regional, national (domestic) and international (foreign) environment of business. For example, the local custom of "coolie" labour, the climate of the northern region of Assam, the policies of the State and Central Governments in India and the size of the world market: all these factors together will have an important bearing on the tea industry. The production, consumption and marketing of tea will be affected by environmental factors.

The environment differs not only over space but also over time within a country. As such, we can talk of temporal patterns of environment, i.e., past, present and future environment. Future environment is the product of past and present environments. The Indian economy of tomorrow will be influenced by what the state of the economy is at present and what it was in the past.

Sometimes the environment may be classified into market environment and non-market environment depending upon whether a business firm's environment is influenced by market forces like demand, supply, number of other firms and the resulting price competition, or non-price competition etc., or by non-market forces like Government laws, social traidtions, etc.

Finally, we may classify the environment into economic and non-economic. Non-economic environment refers to social political, legal educational and cultural factors that affect business operations. Economic environment, on the other hand is given shape and form by factors like the fiscal policy, the monetary policy, the industrial policy resolutions; physical limits on output, the price and income trends, the nature of the economic system at work, the tempo of economic development, the national economic plan etc. The non-economic environment has economic implications just as the economic environment may have non-economic implications. Since the environment is the sum total of the history, geography, culture, sociology, politics and economics of a nation, the interaction between economic and non-economic forces is bound to take place.

Activity 1

Can you now recapitulate the various criteria on the basis of which a business environment may be classified? Place the criterion on the left hand side and the suggested classification of environment according to that specific criterion on the right hand side.

....	....
....	....
....	....
....	....
....	....
....	....
....	....
....	....

Now, think of your own organisation and its business operations. If you are not working in any organisation, then think of a firm, farm, factory establishment or institution you are familiar with. Considering its present, operations, identify some of its environmental factors as in the model given below.

Organisation : Indian Airlines (IA)

Environmental factors / forces within which IA is operating

Social	Political	Economic	Physical
IA carries various typesof passengers : businessmen, government officials, private individuals and tourists.	IA comes under the Ministry of Civil Aviation; it is subject to parlimentary control	IA's traffic is growing despite the fact that air travel is becoming costlier. Fuel economy is IA' primary concern today.	The fleet composition of IA is quite modern. However, IA cannot use the Airbus for all its sectors because the airport facilities are not adequate.

Your Organisation ....

Environmental factors / forces :

Social	Political	Economic	Physical

Do not proceed further without completing this Activity. It should be emphasised at this initial stage that you will miss much of the potential benefit of the course if you do not attempt the Activities given in this unit. If you have worked through the above Activity as directed. You will find that it is easier to describe than to identify and classify the environmental factors.

In this unit, our primary concern is the studyof economic environment of business. You may be wondering why we have chosen the economic environment to begin with. Let us examine some of its basic propositions.

6.3 SOME BASIC PROPOSITIONS

As a prelude to the description and analysis of the business environment in any economy. You may examine the three basic propositions given below:

1. Business is an economic activity.
2. A business firm is an economic unit
3. Business decision-making is an economic process.

These propositions may be examined separately or jointly to justify the study of the economic environment of business in any country.

Business is an economic activity

An economic activity involves the task of adjusting the means (resources) to the ends (targets), or the ends to the means. An economic activity may assume different forms such as consumption, production; distribution, and exchange. The nature of business differs, depending upon the form of economic activity being undertaken and organised. For example, manufacture is primarily concerned with production; the stock exchange business is mainly concerned with the buying and selling of shares and debentures; the business of Govrnment is to run the administration. The Government may also own control and manage public enterprises. The business of banks is to facilitate transactions with short-term and long-term funds. These examples can be easily multiplied. The point to be noted is that each business has a target to achieve, and for this purpose each business has some resources at its disposal. Sometimes the target has to be matched with the given resources, and sometimes the resources have to be matched with the given target. Either way, the task of business is to optimise the outcome of economic activities.

A business firm is an economic unit

A business firm is essentially a transformation unit. It transforms inputs into outputs of goods or services, or a combination of both. The nature of input requirements and the type of output flows are determined by the size, structure, location and efficiency of the business firm under consideration. Business firms may be of different sizes and forms. They may undertake different types of activities such as mining, manufacture, farming, trading, transport, banking, etc. The motivational objective underlying all these activities is the same viz., profit maximisation in the long run. Profit is essentially "a surplus value" - the value of outputs in excess of the values of inputs or the surplus of revenue over the cost. A business firm undertakes the transformational process to generate this "surplus value". The firm can grow further if the surplus value is productively invested. The firm therefore, carefully plans the optimum allocation of resources (i.e., men, money, materials, machines, time, energy, etc.) to get optimum production. The entire process of creating, mobilisation and utilisation of the surplus constitutes the economic activitiy of the business firm.

Business decision-making is an economic process

Decision-making involves making a choice from a set of alternative courses of action. Choice is at the root of all economic activity. The question of choice and evaluation arises because of the relative scarcity of resources. If the resources had not been scarce, an unlimited amount of ends could have been met. But the situation of resource constraint is very real. A business firm thinks seriously about the optimum allocation of resources because resources are limited in supply and most resources have alternative uses. The firm, therefore, intends to get the best out of given resources or to minimise the use of resources for achieving a specific target. In other words, when "input" is the constraining factor, the firm's decision variable is the "output". And when "output" is the constraining factor, the firm's decision variable is the "input". Whatever may be the decision variable, procurement or production, distribution or sale, input or output, decision-making is invariably the process of selecting the best available alternative. That is what makes it an economic pursuit.

Since business is an economic activity, a business firm an economic unit, and business decision-making an economic process, it is the economics environment of business which is the primary consideration in evaluating the business policies, business strategies and business tactics of a corporate entity in any national economy.

Activity 2

Briefly answer each of the following questions.

1. What is an economic problem?

....

....

2. What is the optimum economic activity?

....

....

3. Why or why not should the organisation you work for be treated as an economic unit?

....

....

Activity 3

Get some printed literature concerning your own organisation or any other business organisation, or you can even read the "corporate news" in magazines like Business India, *Business World. Business Today.* Attempt an economic interpretation of the facts and figures that you have at your disposal. You may begin by asking similar questions as given in Activity 2. Briefly jot down the points.

....

....

....

....

....

....

You may elaborate and substantiate these points, wherever required.

6.4 ECONOMIC ENVIRONMENT

You may now consider a firm as an economic institution in a market system. The market behaviour of the firm reflects the nature of the economic decisions taken by the manager of the firm. Micro-economic decision-making by the firm has nevertheless to be made within the broader macro-economic environment. The economic enviornment of business refers to the broad characteristics of the economic system in which a business firm operates.

The present day economic environment of business is a complex phenomenon. The business sector has economic relations with the Government, the capital market, the household sector and the foreign sector. These different sectors, together, influence the trends and structure of the economy. The form and functioning of the economy varies from country to country. The design and structure of an economic system is conditioned by socio-political arrangements. Such arrangements are relevant from the standpoint of macro-economic decision making.

For example, in a democratic set up, people exercise an influence, direct or indirect through the system of casting votes, on the nature of the decisions, taken by the Government. In a parliamentary system, most decisions are processed by Cabinet ministers, whereas under a presidential form of Government the President acts as the real manager of the state: it is he who takes or makes decisions. Similarly macro-decision-making is more decentralised in a federal form of Government than in a unitary form of Government.

You may argue that the decisions being referred to are political decisions. True, but it must be emphasised that political decisions have for reaching economic implications. After all the Government is the manager of the economy. The nature of Government ownership, control and regulation of the economic activities of a country provides form and shape to the nature of economic organisations. In a capitalist society, the private sector, induced by the profit motive and led by the free market, takes the major economic decisions of investment, production and distribution. In a socialist society, most of the economic decisions are taken by the Government which is guided by the social welfare motive and central planning. In a communist society, economic decisions, including those of consumption are taken by the state in the interest of the community as a whole. In a mixed economy the private, public and joint sectors and the like all have some say in the major decisions that influence the functioning of an economy.

All modern economies, whether capitalist socialist, communist or mixed, have certain fundamental economic problems to deal with. In each and every economy including the so-called "affluent society" some or many resources are scarce. Consequently, choices concerning the resource use have to be made together by individuals, by business corporations, and by society. It is the social choice and community preferences which give substance to the question of macro-economic decisions. From the standpoint of resources the basic economic problem of every economy is that of just allocation of resources and subsequent optimum production. There are many aspects to this problem: What to produce? How to produce? For whom to produce? When to Produce?

Every economy has to decide on the quality and quantity of the goods and services to be produced. It has to decide on the nature of the technology and technique of production in view of factor endowment. It has to decide on the course and pattern of distribution of goods and services produced. It has to decide on the timing of production. The process of decision-making differs depending on how these problems are solved in different economies. This is what constitutes the functioning of the economy or the nature of the economic environment. At the risk of over-simplification, certain points can be made about the organisation and functioning of modern economies.

i) In most economies both "free market mechanism" and "centralised planning" exist in different degrees even today. By "free market mechanism" or "price mechanism", we mean a free play of the market forces of demand and supply to determine an equilibrium solution of the allocation problem. Market mechanism determines commodity prices, factor prices, and income distribution. By "planning", we mean a programme of action based upon consistency and feasibility of attaining a set of targets in view of a set of objectives through a set of instruments. In the present day world around us, planning is combined with free pricing to arrive at macro-economic decisions yielding "the maximum good to the maximum number". Thus, the economy in which a business firm operates today is not an exclusively free economy making an indiscriminate use of prices and the markets. Rather, it is directed by a system of planning, control, regulation and coordination.

ii) In most economies, positive intervention by the Government in day-to-day econimic affairs has existed over several decades in the past. Planning is a form of Governmental intervention. Besides this, the Government can also intervene through a system of controls and regulations. The "welfare state" principle induces the Government to enforce minimum wages, commodity controls, fair trade practices, etc, through legislation. The basic objectives of such economic legislations and policies are: growth, efficiency and equity. It is the intervening role of modern Governments that has made most business firms socially responsible. However, intervention by the Government is now on the decrease. Many economies have relaxed regulations and controls through economic reforms, and are allowing a free play of market forces.

iii) Modern economies are not "closed", but "open"; they are actively engaged in international trade and cooperation. So, the international transmission effect today is stronger than ever before, Though there are disparities in the levels of income and standards of living over space and time, there is a conscious effort to develop the poor nations. The maintenance of steady growth in developed countries is dependent on the acceleration of growth in underdeveloped countries. This idea has given new dimensions to issues like the role of multinational corporations, the ecological balance, the recycling of petrodollars, and the transfer of technology. The technological revolution is making strident moves. In order to keep their dynamism, the economies are determined to develop science and technology, and to balance environment and ecology, and this is going to act as a unifying force for the world economic order.

These facts define the environment and set the constraints within which modern business firms must operate. The managements cannot overlook the environment, whether market or non-market. No mnagement can ignore the functioning of markets, the objectives of national planning, the policies of the Government or their social responsibilities, or the rate, pattern and structure of economic changes, or the forms of international cooperation. Progressive managements must keep themselves continuously informed about the magnitude and direction of changes in the national as well as international economic environment. Of course, both economic and non-economic environment have an important bearing on managerial decisions.

Activity 4

List some of the basic observations concerning the nature and functioning of modern economics in general

1. ....
2. ....
3. ....
....

Activity 5

Read the Latest *World Development Report* of the World Bank if it is not accessible, you may fall back on your general knowledge. Write down the firsthand information available to you on

World Economy	Indian Economy
....	....
....	....
....	....
....	....
....	....
....	....
....	....

Note that you are required to take stock of the latest developments i.e., the current situation.

Let us now move to more specific issues. When you attempt to analyse the economic environment of business in any country, first of all, you have to identify the critical elements of that environment.

6.5 CRITICAL ELEMENTS

In what follows, we intend to identify and describe a few critical elements of the economic environment. These critical elements are relevant from the standpoint of both corporate business management and national economic management in India.

The critical elements of macro-economic environment are:
* economic system
* nature of the economy
* anatomy of the economy
* functioning of the economy
* economic planning and programmes
* economic policy statements and proposals
* economic controls and regulations
* economic legislations
* economic trends and structure and
* economic problems and prospects

These critical elements may not always be mutually exclusive. But you may treat them separately for analytical purposes.

An economic system defines the *institutional framework of the environment*. The ownership, control and management of enterprises reveals the nature of the economic system. The role and responsibility of the private sector, public sector, joint sector, etc. throw light on the philosophy and practice of an economic system - capitalist, socialist or mixed. The mixed economic system operates through a combination of planning and pricing.

The level of economic development and the structure of the economy define the physical framework of the environment. The level and composition of per capita income indicate the level of growth and development. Available natural resources, human resources and material resources of a country set a limit to its factor endowment which determines its production. The occupational distribution of the labour force, the structure of the national output, the composition and pattern of foreign trade, the structure of savings, investment and capital formation, the pattern of income distribution (inter-personal and inter-regional), and the degree of urbanisation - all these bring out the significance of the agriculture, industry, and service sectors in the national economy.

The structure of the national economy can also be discussed in terms of its *physical anatomy*. The national economy is, after all, a combination of the household sector, the corporate business sector, the Government administration, the capital market, and the foreign sector. This is suggested by the national income and the social accounting approach. The order and strength of each of these sectors, therefore also throws light on our understanding of the macro-economic environment.

If you can describe the economic environment with reference to the terms discussed above, you may now attempt an explanation of its *functioning*. You will discover that money is the life and blood of business activity and of the economic system. The flows of consumption, investment, saving, income, employment and output are all affected by transactions of money. Monetary transactions affect the price level, thereby influencing the real value of all macro-economic variables. Significant developments have taken place in macro-economics to define the role of money. The essential question is: Does money matter?

There are different answers to this questions: (1) Money does not matter at all (Classical); (2) Money matters least (Keynesian); and (3) Money matters most (Monetarist). The theoretical debate is quite interesting. But you have to examine its empirical relevance in the econoic environment of a country like India. This will provide you with a further insight into the role of centralised planning in the present context, administered price system as well as free market pricing, and central banking.

Economic planning is supposed to give a direction to the changes in the economic environment. Most countries function today on the basis of planning. Either it is planning by direction - typical of a socialist economy, or it is planning by incentives, i.e., democratic planning typical of a mixed economy, or it is indicative planning typical of the French economy. It is through the system of a perspective planning, five-year planning and annual planning that the economies try to overcome their environmental constraints and optimise their achievements over a period to time.

Planning is a programme of action, it is not a guarantee in itself. The formulation of plans and programmes must therefore be followed by proper implementation. This calls for *economic policy statements and legislations*. Apart from having general policy statements affecting industry and agriculture, the Government often formulates and executes fiscal-cum-budgetary policies. The central bank will work through the instruments of money and credit policies, exchange rate policies etc. Some sort of physical policies of controls and regulations may also be needed. Price control, trade control and exchange control are all moves in the same direction. Sometimes legislations and enactments become necessary for effective implementation of all these policy statements and proposals. The national economic environment of business is determined by the existing macro-economic policy framework.

These policies, planning and pricing together make the economy function effectively. The functioning of an economy is reflected in short-period *fluctuations* and *long-term trends in macro-economic variables* like income, money supply, prices, production, employment, blanace of trade and payments, foreign exchange earnings, etc. These trends decide the course of the prevailing economic environment. Some of these economic trends may define the nature and dimension of various *macro-economic problems* like inflation, unemployment, recession and the like. The problems have to be analysed with the objective of making national economic management efficient. Economic problems and economic prospects in the environment throw challenges to the corporate business management as well as national economic management.

Activity 6

Somebody picked up at random the following headlines from newspapers and magazines published in India. Identify each one of them and place it under the broad categories of critical elements of the economic environment.

Headlines: "Finance Minister announces drought relief measures"
"MODVAT being reviewed"
"20-Point Economic Programme"
"Bonus Ordinance"
"Wholesale Price Index still rising"
"FERA Amnesty Scheme"
"Non-resident Indians' investment incentives"
"Power in the private sector"
"Liquidation of sick units within public sector"
"Public sector units to float bonds"
"More autonomy for the RBI"
"Zero-base budgeting introduced by the Government"
"More items of import under OGL"
"Industrial relations elimate better"
"A mid-term review of the 8th Plan by the end of 1992"
"Pay Commission Report released"
"Trade unions on war path"
"Department of Environment for Ecological Balance"

Economic System

Economic Planning and Policies

Economic Controls and Regulations

Economic Legislations

Economic Trends and Structures

Economic Anatomy

6.6 INDIAN ECONOMIC ENVIRONMENT

Now, you may be anxious to evaluate the Indian economic environment in terms of the conceptual framework just suggested. You may note that the national economic environment of a country can be described and analysed in terms of its (a) *data* environment, and (b) system environment. In subsequent units you will be exposed to the details of the Indian economy's data environment, i.e., the *physical* trends and structural co-efficients. The system environment of the Indian economy will also be dealt, with in detail, in terms of various policy statements, planning techniques, organisation and structure of the capital market, role and responsibility of the private and public sector, etc. the system environment encompasses the entire institutional framework of the economy. An overview of this system environment is presented in this section. For the time being, you should be more interested in the evaluation rather than evolution of the present Indian economic system.

You might have come across the statement that India's is a mixed economy. In fact, India has a very complex mixed economic system. Let us elaborate this further.

Firstly, a simple mixed econimic system is characterised by the existence of the private and public sectors.India has a multiplicity of sectors: private (dominant undertakings, foreign companies, etc.), public, joint, co-operative, workers' sectors and also "tiny sector". We hear of different sectors in different areas of the Indian economy: big sector, small sector, heavy sector, light sector, licensed sector, delicensed sector, national sector, core sector, reserved sector, etc. India is a complex vector of sectors.

Secondly, a simple mixed economy is characterised by complementarity between central planning and pricing. India has a multiplicity of mechanisms at work: five-year plans, annual plans during plan holidays, pointed economic reform and reconstruction programmes during and after plan vacations, ideas of rolling plans; an elaborate system of controls and regulatory measures, attempts towards streamlining and simplification of procedures, private traders and public distributors for the same product and hence a system of dual prices, ceiling prices, floor prices, subsidised prices, statutory prices, retention prices, procurement prices, levy prices, and free market prices contractionary monetary policies and expansionary fiscal policies, etc. In India there is a complex system of literal rules, strict regulations, control mechanisms, planning and a host of price regulations (which of course are being gradually relaxed).

Finally, a simple mixed economy is expected to reach a target level of social welfare, and for this task, the profit policies are to be designed according to a social purpose. The social welfare function in India is defined by the multiplicity of objectives which are sometimes conflicting in nature. For example, in terms of our five-year plans. India is aiming at efficiency, justice and stability. Productive efficiency in a static sense refers to the efficiency-allocation of the given resources. Productive efficiency in its dynamic sense refers to economic growth. The fruits of economic growth have to be distributed. Fairly among the masses; social justice is to be so attained so as not to endanger stability of prices, incomes, balance of payments, etc. The Indian plans have always emphasised objectives like full employment of labour, full capacity utilisation of plant and equipment and self-sufficiency. In the long run, these objectives may be compatible with each other but operationally these objectives come in conflict with each other. For example, in order to promote a higher rate of growth, heavy industrialisation and large investments are undertaken. Such investments increase the flow of money faster than the flow of output. This generates inflationary forces. Thus, price stability comes in conflict with economic growth. Similarly, economic growth comes in conflict with social justice. A progressive tax system is used as a means to reduce income inequalities, but the same tax policy hampers private incentives to invest and to generate the growth forces thereby. Foreign exchange remittances help the country in overcoming balance of payments difficulties, but they increase the domestic money supply and prices. Examples can be multiplied to demonstrate the inherent conflict among the objectives which the mixed economy of India hopes to achieve. To top it all, different instruments have been used to attain different target variables -- fiscal policies for growth with justice, monetary policies for price stability with growth, price and output controls for price stability with justice. This has led to further confusion.

To sump up, the so-called mixed economic system of India sometimes gives the impression of a mixed-up economic system that is characterised by a multiplicity of sectors, a multiplicity of instruments, a multiplicity of ojbectives and a multiplicity of adjustments to resolve the conflict between various sectors, between instruments and between objectives.

The present day mixed economy of India has evolved through a series of policy formulations and legislations. It started with the Industrial Policy Resolution of 1948. This was followed by the Industries (Development and Regulation) Act 1951, the Directive Principles of State Policy 1950, the Industrial Policy Resolution 1956, the Monopolies and Restrictive Trade Practices (MRTP) Act 1969 and its subsequent amendments, the Induatiral Licensing Policy, 1970, and its subsequent amendments and the Foreign Exchange Regulation Act (FERA) 1973 and its subsequent amendments. These enactments and policy formulations have been modified or supplemented from time to time by comprehensive five-year plans, the 20-Point Programme, controls and regulations on prices, output, production, distribution and trade, various nationalisation schemes, anti-poverty schemes, and finally the economic reforms initiated in 1991.

During the decade of the 1980s the Indian mixed economy took a decisive direction. It all started with the announcement of the Industrial Policy Statement of 1980. The purpose of this policy was to ensure attainment of socio-economic objectives such as optimum utilisation of capacity, maximum production, employment generation, export promotion, import substitution, consumer protection, correction of regional imbalances through the development of industrially backward areas and "economic federalism" with an equitable spread of investment among large and small units, among urban and rural units, etc. Some important provisions of the 1980 policy were:

* regularisation of excess capacity
* an automatic expansion at the rate of 5% per annum to be maximum of 25% in five years, in all the industries of basic, critical and strategic importance
* promotion of 100% export-oriented units
* revival of sick units through a package of modernisation measures
* development of "nucleus plants" (on the lines of District Industries Centres)
* reorientation of the public sector, including the development of its managerial cadres.

As a follow-up of the 1980 Statement, the Government announced some further concessions on April 21, 1982. Among these, the important ones were the following:

* The list of "core sector" industries was revised by including five more industries. It implied that the FERA companies and large houses would be allowed to set up industries in those areas.
* Industry was allowed 33.3% capacity over the best production during the previous five years over and above the 25% excess production.
* Large houses and multinationals would be permitted to set up units outside the core sector if the units were predominantly export-oriented, i.e., 60% export in respect of items not reserved and 75% for items reserved for the small-scale sector.

Such liberalisation measures were supplemented by relaxation in price and distribution controls, amendments in the provisions of the MRTP Act relating to the definition of "market dominance", exemption from the need to obtain MRTP clearance for production in sectors of "national priority", etc. Such measures were specifically designed to assist the expansion of industrial production during 1982, which was designated the Productivity Year.

During 1983-85, the Industrial policy pursued by the Government of India placed emphasis on modernisation and technological upgradation for better capacity utilisation and larger production. For example, in order to promote demand, excise duties were reduced on commercial vehicles, refrigerators, batteries, tyres and tubes. Major concessions in excise and import duties were given for the benefit of the electronics industry with effect from October 1, 1983.

During 1985-87, the Government took a large number of measures to encourage the private sector. Some of these measures which were broadly referred to as "privatisation" and "liberalisation" included: Inviting private bids for oil drilling by both the Oil and Natural Gas Commission and the Oil India Limited on a contract basis; setting up of the Mangalore and Karnal refineries in the joint sector; setting up of new power units in the private sector decision in principle to encourage private funds including foreign capital for setting up container terminals and port development; acceptance of an 'air taxi service' in the private sector; permitting private and co-operative bodies to put up TV terminals, and to run Post Offices; enlisting private enterprises in the field of building roads and bridges; permitting the private sector to manufacture solar cells which were hither to the monopoly of public undertakings namely, Bharat Heavy Electricals ltd., and Central Electronics Ltd; and a decision to reconstitute the Board of Directors for units like Air India and Indian Airlines, so as to run them on the principle of professional management by experts drawn from both the private and public sectors.

The New Economic Policy

The new economic policy was announced in July 1991 which is of far reaching importance. The new economic policy, among other things, has a bearing on: (1) Industrial Licensing, (ii) Foreign Investment and foreign Technology Agreements, (iii) MRTP regulations, and (iv) Public Sector. Our purpose is to acquaint you with the main ideas or philosophy behind the economic policy. And this we intend to do by taking up all these aspects briefly. (All these aspects will be taken up for further discussion in the appropriate units).

Industrial Licensing: The statement of new economic policy emphasised that the system of industrial approval needed a number of changes to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of policy measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgement. Government policy and procedures must be geared to assist the entrepreneurs in their efforts by making essential procedures fully transparent, by eliminating delays, and removing restraints on capacity creation, while, at the same time, ensuring that overriding national interests are not jeopardised.

The decisions taken in this respect are listed as under:

* Abolition of industrial licensing for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption. Industries reserved for the small scale sector would continue to be so reserved.
* Areas where security and strategic concerns predominate will continue to be reserved for the public sector.
* In projects where imported capital goods are required, automatic clearance will be given in certain cases.

* In locations other than cities of more than 10 lakhs (1 million) population, there will be no need for obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing.
* Existing units will be provided a new broad-banding facility to enable them to produce any article without additional investment.
* Exemption from licensing will apply to all cases of substantial expansion of existing units.
* The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

Foreign Investments and Foreign Technology Agreements: Regarding direct foreign investment, the Government announced its decision to grant approval for investment up to 51% foreign equity in high priority industries without any bottlenecks in the process of approval. This was intended to invite foreign investment in industries requiring large investments and foreign technology. The list of high priority industries identifieid for the purpose include 34 broad areas like metallurgy, electrical equipment, transportation, food processing, and hotel and tourism industry. However, clearance will be given if foreign equity covers the foreign exchange requirements for imported capital goods. Proposals which do not meet the above criteria will continue to need prior clearance. But foreign equity proposals need not necessarily be accompanied by foreign technology agreements. Payment of dividends on foreign equity would be monitored through the Reserve Bank of India so as to ensure that outflows on that account are balanced by export earnings over a period of time.

Direct foreign investment up to 51% foreign equity is allowed for trading companies primarily engaged in export activities to provide access to international markets.

Foreign Institutional Investors (FIIs) have been permitted to enter the Indian capital market and allowed to trade both in the primary and secondary markets, without any restriction on the total volume of investment and lock-in period.

With the amendment of the Foreign Exchange Regulation Act in January 1992, there were further changes in the policy frame. The limits on the operations of FERA companies in non-priority sectors were removed. These companies were also enabled to take up any trading, commercial and industrial activity, as also acquire any company in India, or acquire shares in any company without prior approval of the Reserve Bank. Their export obligations and commitments stood annulled. Earlier, FERA companies having a 74% stake were to commit 7.4% of turnover to priroty sector activity. To retain 51% to 60% stake, such companies were required to commit 60 percent of turnover to priority or sophisticated technology industries with a minimum 10 percent export commitment, or export commitment of 60 percent of turnover.

Foreign Technology Agreements: The policy statement emphasised that there is a great need for promoting an industrial environment where the acquisition of technological capability receives priority. Towards that end, governmental interference with commercial technology reltionships of Indian entrepreneurs with foreign technology suppliers was unnecessary.

As viewed by the Government in the fast-changing world of technology the relationship between the suppliers and users of technology must be a continuous one, whereas governmental interference on a case-to-case basis involved inordinate delays and fostered uncertainty. The Indian entrepreneur had come of age and no longer needed bureaucratic clearances of technology relationships.

Thus, Indian companies will, hereafter, be free to negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgement within the specified parameters. This is expected to induce industry to develop indigenous competence for the efficient absorption of foreign technology, and invest more in R&D due to greater competitive pressure.

Changes in MRTP Regulations: A significant change initiated by the new policy was the removal of the threshold limits of assets in respect of MRTP companies and dominant undertakings. With this decision, prior approval of the Central government will not be required for the establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover of companies. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices as provided under the MRTP Act. At the same time, the MRTP Commission will be empowered and authorised to initiate investigations *suo moto or* on complaints received from individual consumers or classes of consumers in regard to monoplistic, restrictive and unfair trade practices.

Public Sector Policy: In the context of massive investments made, the policy statement noted two aspects of the performance of public enterprises. The mature enterprises have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas. On the other hand, in many of the enterprises, serious problems have manifested themselves, which are observed in insufficiency growth of productivity, poor project management, over-manning, lack of continuous technological upgradation, and inadequate attention to R&D and human resource development. The consequent low rate of return has inhibited the ability of such enterprises to regenerate themselves in terms of new investment as well as in technology development. Thus,many of the public enterprises have become a burden on rather than as asset to the Government.

The original concept of public sector has undergone considerable dilution. The take-over of sick units from the private sector has resulted in losses of a certain category of public sector units amounting to almost one-third of the total losses of Central Government enterprises. A number of enterprises in the consumer goods and services sector do not fit into the original idea of the public sector being at the commanding heights of the economy.

The policy decisions in the above context are based on a new approach as follows:

* The portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure.
* Public enterprises which are chronically sick and which are unlikely to be turned around will be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar institutions created for the purpose, for the formulation of revival/rehabilitation schemes. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.
* In order to raise resources and encourage wider public participation, a part of the Government's shareholding in the public sector would be offered to mutual funds, financial institutions general public and workers.
* Boards of public sector companies would be made more professional and given greater powers.
* There will be a greater thrust on performance improvement through the Memorandum of Understanding (MoU) by which managements would be granted greater autonomy and would be held accountable. Technical expertise on the part of the Government would be upgraded to make the MoU negotiations and implementation more effective.

* To facilitate a fuller discussion on performance, the MoU signed between the Government and the public enterprises would be placed in Parliament. While focusing on major management issues, this would also help place matters of day-to-day operations of public enterprises in their correct perspective.

In February 1992, the Government of India announced its decision to permit public sector undertakings to float bonds. The move was aimed at mobilising extra-budetary resources for the public sector and was applicable to all state enterprises fully owned by the Central Government. Guidelines were issued by the Controller of Capital Issues in this connection for floatation of bonds by existing as well as new corporate undertakings including finance corporations. We shall now talk about competition and quality.

Challenge of Global Competition and Quality Standards: Industrial enterprises in India, after years of protection from foreign competition,have been exposed to competitive markets both within and outside since the policy of liberalisation was initiated in 1991. With the entry of MNCs and growth of foreign companies, domestic product marekts are being increasingly subjected to forces of competition. On the other hand, export promotion is directly linked with the competitiveness of Indian products in markets abroad.

Price and quality are two major factors by which the competitive strength of a company is determined. Except for elitist products, price has been the more important factor determining the sales performance of firms. However, brand images of foreign companies are making a dent in the domestic market with buyers becoming more quality conscious. In export markets although price influences buying decisions to a large extent, the quality of the product is an equally important factor in export marketing.

It is in the above context that the significance of quality standards has been recognised widely in Indian industries. At the national level quality standards have been developed by the Bureau of Indian Standards (BIS) for a large number of products and components. BIS, at present, manages 16,000 standards developed over the years for over 14,000 products. The Standard Mark of Certification - the ISI Mark - is granted by the Bureau where the goods conform strictly to the relevant standards set by it. The certification scheme is designed to ensure the quality of goods, particularly those affecting the health and safety of consumers. It also ensures that mass-produced and mass-consumed products conform to the required standards of quality, safety and durability.

Grading and standardisation of agricultural commodities is provided for under the Agircultural Produce and Marketing Act, 1937. For fixing grade standards there are sixteen regional laboratories besides the Central Agmark Laboratory at Nagpur. Among others, commodities graded include vegetable oil, butter, eggs, wheat flour, rice, cotton, potatoes, gur, maize, honey and ground spices. The graded products are stamped with the seal of the Agricultural Marketing Department - AGMARK. Compuslory grading is done before export in the case of 34 commodities.

Of late, a great deal of importance has come to be attached to Quality Systems Standards - the ISO 9000 series of Standards - which, the International Organization for Standardisation (ISO) brought out in 1987, and were published in India by the BIS in 1988 as IS 14000 series of standards. These standards are based on Quality Management Systems, and provide an effective means of ensuring that the producer is consistently capable of delivering goods of the desired quality at optimum cost'. The emphasis is to provide for quality not only in manufacturing but in every other activity of the organisation from marketing to delivery and feedback from after sales services. The BIS launched the Quality Systems Certification Scheme in September 1991 under the provisions of the BIS Act, 1986. The operation of the scheme entails initial assessment and subsequent surveillance of the quality systems installed and implemented by the firm for verification of its conformity to the prescribed requirements. The operation of the scheme is in harmony with international practices. It meets the criteria enunciated by ISO, the European Community and its accreditation from Ms. Raad Voor de Certificates, Netherlands.

However, ISO 9000 certification by itself cannot yield results unless people on the shop floor and in Board rooms are continuously motivated to keep their performance levels high. The demand for certification of quality systems from a wide cross-section of industry is increasing, primarily from export-oriented units. A number of certification bodies - companies catering to quality management systems certification - have come up and are reported to be vying with each other to offer their services. In the absence of a national quality accreditation body, it is feared that quality systems certification by different agencies may be lacking in credibility.

6.7 ECONOMIC ENVIRONMENT AND BUSINESS MANAGEMENT

If you have undertaken Activity 6 seriously, you would realise that there is a lot of overlapping, i.e., one item may fall under different heads. This suggests a difficulty in the classification of environmental variables. At the same time, it points *towards interaction* among environmental factors.

Let us now examine the interaction between Economic Environemnt and Business Management.

The business environment influences business management. The critical elements of the business environment often interact with the critical elements of business management. The critical elements of business management are: planning, direction, organisation, control or coordination, leading and motivation and evaluation. Management at all levels, top, middle as well as supervisory, is concerned with these critical elements to a certain degree. Similarly, these very cirtical elements are the concerns of the management that specialises in different functions such as production, finance, marketing, purchase, inventory control, personnel, public relations, research and development, etc.

Management, at all levels of specialised functions, is influenced by the critical elements of the business environment. For example, when an industry faces business recession, the management may decide to cut down the rate of production or to pile up inventory. When the market is being invaded by an increasing number of closely substitutable products, the management may decide to go in for aggressive advertising to face cut-throat competition. When the financial institutions start interfering too much with the day-to-day business operations of a firm, the firm's management may decide to do away with borrowed capital and depend upon its own resources. When the Government enforces minimum wage legislation and other social security measures for all permanent workers, the management may decide to recruit only casual workers through a labour contractor. Such examples can be multiplied. The point is that the management always studies the environment and then makes/ takes a decision accordingly.

The existing business environment may act either as a stimulant or as a constraint for business management. If the prevailing environment is favourable to business growth and prosperity, then the management feels happy and responds positively. Small business owners, for example, are often encouraged to produce more when the Government pays them a subsidy. On the other hand, wh... the prevailing environment is unfavourable, it acts as a disincentive. For example, when t...

Government tries to impose a high tax rate on corporate profits, many business concerns try to evade tax by under-reporting their profits. It is interesting to note that the same environment may act both as, a stimulant and a constraint - stimulating for some and constraining for others. Reconsider the last example. A high tax rate increases the propensity to evade taxes; it induces the corporate tax payers to restrict their output, sales or profits. At the same time, this very situation provides an opportunity to the tax consultant for a thriving business.

For the management, the environment is not limited to the institution of the Government. There are other institutions and forces as well. The management has to take care of the interests of other groups also, such as the workers, suppliers and contractors, consumers, shareholders and many others. The workers, organised in trade unions, often ask for higher wages. the salaried middle-level managers, through their associations,may also ask for a particular package of pay and perks. The suppliers, organised in guilds, may not always supply materials as per the specifications of the management, and they may seek revised rates or change the quality and schedules of delivery. The shareholders may ask for higher dividends or may like to have a greater say in management. The consumer cooperatives may seek lower prices and better quality for the products they buy. All in all, the top management has to balance the intersts of all the stakeholders - Government, trade unions, manufacturers' association, financial institutions, consumer cooperatives and so on. Very often, the management's own economic aspirations may come in conflict with those of other groups. If the management can readily resolve these conflicts, it gets the better of the environment. And if the management accentuates, these conflicts, it becomes the victim of the environment. The management may dictate or be dictated to by the negative/positive forces of the environment.

A good amount of managerial skill is required in adjusting to the environment. The managers must have a thorough knowledge and understanding of the immediate business environment. With experience and maturity, the alert-managers acquire the skill to deal with the environment. When an environment repeats itself, experienced managers effectively display their capability to take care of it. When the changing dimensions of the environment establish a sudden departure from past trends and tendencies, the managers are called upon to demonstrate their capability to deal with the situation of risk and uncertainty. The environment, thus, possess a challenge to the management. Managerial efficiency and/or effectiveness is a measure of adaptability to the existing business environment.

Environmental scanning, thus, becomes an important step towards corporate planning and business policy decisions. Corporate managers analyse the Strengths(S), Weaknesses(W), Opportunities(O) and Threats (T) that exist for their organisations in the context of its environment. The SWOT analysis precedes the making/taking of strategic and tactical decisions by the management.

Irrespective of the fact whether it is office management, factory management, farm management, hospital management, bank management or any other management, business management everywhere is determined by, and determines, the business environment. We have so far treated a firm and its management as a dependent variable, the explanatory variable being the environment. Let us now consider the opposite situation. The totality of business behaviour of different corporate entities may also determine the form and content of the environment. If the managements of different public enterprises ask for more automony, there emerges a possibility towards a laissez faire business environment. Or suppose management-labour relations deteriorate day-by-day first in one firm, then in other firms, then in one industry, then in different industries, because of some sort of demonstration effect, then the national economic environment sooner or later will be affected by such unhealthy industrial relations. Another example is that the preparation of the balance-sheets of a growing number of companies is directed by considerations of accounting convenience, rather than accounting conventions. A study of such balance-sheets may present a distorted picture of the national investment climate. With the help of these examples, you may argue that the behaviour patterns of individual firms and their respective managements together determine the macro-level environment of business and industry.

The environment and management thus influence each other. The existing environment influences corporate level planning, business strategy and business tactics; it also affects the size, structure, location, integration and growth of business. The management's success or failute is determined by its adjustment to favourable/adverse environmental factors. The nature of such realisation, its freqeuncy and duration, induces corporate managers to cultivate some standards of business philosophy, business ethics and business practice. Simultaneously, Government managers, the labour managers and the like also start adjusting to the changing organisation-culture. This yields a new business environment. And so the process continues. It is thus, a never-ending process of interactions: Environment -> Management -> Environment -> . It is like a biological organism which keeps both the envrionment and the management continuously responsive to each other.

Activity 7

Think about your own organisation or any other. You may now attempt a SWOT analysis of its business environment. Do name the organisation and the industry it belongs to before you start.

Name

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Strengths

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Weaknesses:

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Opportunities:

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threats:

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Let us now turn our attention to interaction between the economic environment and Business Management. You may also like to consider the interaction between the economic and non-economic environment. B.M. Richman and M.R. Copen, in their book *International management and Economic Development*, have, in fact, developed the concept of interaction Matrix to stress the significance of this or other forms of inter-dependence among environmental variables.

6.8 ECONOMIC AND NON-ECONOMIC ENVIRONMENT: THE INTERACTION MATRIX

The economic environment of busienss exercises a strong influence on the non-economic environment of business just as the non-economic environment influences the economic environment. The economic environment is, thus, both exogenous and indigenous; it determines as well as it is determined by the non-economic environment. Let us consider a few specific interactions.

The social environment affects and gets affected by the economic environment of business. Social attitudes towards business and management determine how many people get attracted to private business as an activity and to management as a career. If business gets social sanction as a respectable profession, the occupational structure of a country will reflect a sizable category of professional managers. On the other hand, if more and more of the active labour force joins professional management, the social attitude towards business and its management also changes.

Let us take another example. Social movements largely determine the economic system. If the workers cultivate an attitude of confrontation, rather than cooperation, with management, a repressive economic system may be needed to cope with industrial disorder., On the other hand, if the attainment of rapid economic growth is the target, the management must bring about a labour productivity revolution and the wages may be based on productivity of labour rather than profitability of business. To operate on productivity-based wages is to operate on the system of incentives and positive attitudes of labour. The attainment of a specific economic objective is, thus, conditioned by a specific social attitude and discipline.

The educational-cultural environment and the economic environment of business are also interdependent. The state of economic development acts as a decisive factor in the choice of a system of education. For example, only a relatively high-income country can afford to impart costly higher education in science and technology. The system of education, on the other hand, may be responsible for a given economic environmnet. For example, the emphasis on education in the arts and a lack of vocational courses may be held responsible for the economic problem of unemployment in many countries.

The politico-legal environment and economic environment of business are also interlocked to such an extent that we sometimes think of the political economy of business. In a situation of political stability, business enterprises happen to be forthcoming and businessmen are willing to take more econimic risks. But if there is political instability, business uncertainties multiply and, therefore, entrepreneurs may not like to take up new business ventures. The state of business in Punjab during the period of terrorism is a recent example. Similarly, the ideology of the ruling party influences the economic system. The ruling party which believes in using socialism as a strategy and nationalisation of enterprises as a tactic to strengthen the economy may not be favourably viewed by the private business sector. On the other hand, sometimes a series of political legislations may be necessary to cope with the economic environment. To fight economic and industrial recession, the strategy of streamlining the administration and simplifying the procedure may be adopted. In fact, different legislations of the Government (like MRTP Act, FERA, and Urban Land Ceiling Act) are often politico-economic in character. This is borne out by an analysis of the content and intent of different legislations and political announcements. Also, the state of economic environment decides the continuity or discontinuity of a particular political administration. The state of the political environment, in its turn decides the pattern of economic legislations.

The historical environment and the econimic environment of business are also interdependent. The present (economic) environment of business can be treated as a legacy of its past (historical) environment. Every business has a history, and history always has a lesson to teach. As such, the present is a reflection of the past, and the present can also be handled in terms of the experiences of the past. A number of examples may be quoted. The present economic envrionment of a country is partly determined by the available structure of industry in that country. Today you find a number of extractive industries such as mines and plantations in our country. These industries can be traced back to the colonial pattern of investment in the past. The British empire was interested in the colonies so that it could easily (a) get the raw materials for its industries, and (b) dump the finished manufactured products in the colonical markets. The colonies, thus, supplied the market as well as the raw materials. In other words, the economic environment of business in the newly independent nation-states is the outcome of the colonial infrastructure which those countries had in the past. Similarly, history is a record of events, and a storehouse of lessons which can provide guidelines for present economic policy decisions. The achievements of the Five-Year Plans in the past may provide a direction to the formulation and implementation of the current Five-Year Plan of an economy. And the present performance of a plan will decide the future course of planning. It suggests that the environmental factors are interrelated on the time scale too.

Finally, we come to the interaction between the physical environment of a country and the economic environment of business in that country. A number of legislations have been enacted in many countries to conserve natural resources and to preserve natural the physical environment. These environmental legislations may impose a constraint on the expansion of a given business concern like a factory. 'Thus environmental considerations limit the expansion activities of a business firm. On the other hand, the size of a plant, the scale of output the organisation of firms, the structure and location of industries may lie at the root of either environmental improvement or environmental decay. Thus, the social responsibility of business today means taking care of the environmental impact of various economic and technological activities. To the extent this social responsibility is not discharged, laws relating to business and industry will increasingly turn out to be laws relating to the physical environment of business. From this standpoint, one may feel that in addition to the existing functional areas of management (production, finance, personnel and marketing), we are soon going to have a new area of environment. The point remains that the physical environment as a factor is becoming so significant day by day that it may be treated as a critical element within the economic environment of business.

In the foregoing pages, we have discussed how the economic environment in general interacts with non-economic environmental factors. If you think a little more, you will discover that individually each critical element of the economic environment (namely, economic system, economic structure, functioning of the economy through sectors, economic policies, programmes and controls) interacts with each critical element of the non-economic environment (namely, sociological, political, historical and physical) and their respective sub-elements. We can conceptualise this interdependence or interlocking of various environmental factors in terms of an Interaction Matrix. For example, in Interaction Matrix below we have listed the critical elements of the non-economic environment along the rows and the critical elements of the economic environment along the columns thus yielding a seven by five matrix. when a given element of the economic environment influences a given element of the non-economic environment, you draw a short line vertically, and when an element of the non-economic environment influences a given element of the economic environment, you draw a short line horizontally. Thus in case of interdependence among the environmental elements, you end up with a plus sign which suggests a two-way interaction. The Interaction Matrix serves as a ready-reference for understanding environmental relations and reactions.

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Interaction Matrix

Economic → Environment / Non-Economic Environment ↓	Economic Systems	Economic Structure (Anatomy)	Functioning of the Economy via Sectors	Economic Planning (Long-term)	Economic Programmes (Short-term)	Econimic Policies Fiscal & Monetary	Economic Control & Regulations	Economic Growth & Development
(1) Sociological	+	+	+	+	+	+	+	+
(2) Educational Cultural	+	+	+	+	+	+	+	+
(3) Political-legal	+	+	+	+	+	+	+	+
(4) Historical	+	+	+	+	+	+	+	+
(5) Physical Geographical	+	+	+	+	+	+	+	+

Activity 8

Treat the preceding Interaction Matrix as a model and figure out a few more Interaction Matrices. You should try to inler-relate the environmental variables classified on various criteria such as space, time, factors and forces. Corresponding to each element in a given matrix, think of a real specific example from the Indian business world.

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6.9 SUMMARY

The environment is a complex phenomenon. The term environment consists of several subsets, e.g., economic environment, socio-cultural environment, politico-legal environment, technological environment, etc. It thus represents the totality of all kinds of environments which have an impact on business. To a large extent, the environment is external to the firm. Business firms in general have little influence on general forces. Depending upon the nature and composition of several subsets of the environment the business environment varies from country to country, and may even vary in the same country from one point of time to another. A number of problems are involved in the identification, description, explanation and prediction of environmental factors. The environmental factors are dynamic. It is difficult to conceptualise and /or quantify the proportion of change as well as the direction of change in environmental factors.

Some basic propositions about business are : it is an economic activity, the business firm is an economic unit; and business decision making is an economic process.

The environment may be classified (for convenience of analysis) based on different criteria such as.

Space - Local, regional, national and international environment.
Time - Past, present and future environment.
Forces - Market and non-market environment.
Factors - Economic and non-economic environment.

The environmental factors can be treated as exogenous as well as endogeneous. The factors are inter-locked to such as extent that you may like to make use of the concept of Interaction Matrix to illustrate their interdependence.

The environment consists of all economic institutions, the structure of the economic system, market forces. Government's economic policies and plans. All modern economies have certain fundamental economic problems to deal with. Most of the countries of the world have mixed economies. There is a tendency towards the marketisation of economic institutions and opening up of economies.

The critical elements of any economy are: the nature of the economic system, the structure of the economy: mode of functioning of the economy, economic planning and programmes, policy statements, controls and regulations, economic legislations, economic trends and structures, current economic problems and prospects. The national economic environment under which business operates may act either as a positive stimulant or as a negative constraint for the management, thus affecting business efficiency.

After independence, India embarked upon a system, of mixed economy based on the concept of central planning with socialistic bias. With economic reforms initiated in 1991 the economy is gradually being opened up in order to integrate it with the economies of the rest of the world. The main purpose of economic liberalisation is to attract foreign direct investment and modern technology for speedy economic progress. Several significant changes have been made in the MRTP Act, public sector policy, industrial licensing, trade policies, etc. to bring them in tune with the new realities.

Since the environment and the economic institutional framework affect business organisations. It is imperative on the part of the management to scan the environment before taking any decisions. The success of any business enterprise, in a large measure, would depend upon the proper understanding of the business environment.

A device called Interaction Matrix can be helpful in understanding the relationship between two sets of variables, e.g., economic and non-economic factors.

6.10 KEY WORDS

Environment: The totality of all factors or forces affecting business and external to and often beyond the control or influence of individual business enterprises. The environment comprises several subsets, e.g. economic environment, socio-cultural environment, politico-legal environment, technological environment, etc.

Economic Activity: Any activity undertaken with economic or financial motive-or consideration. In the business context, it is the task of adjusting the means/resources to the needs/targets.

Decision-Making: Making a choice from a set of alternative courses of action.

Economic Environment: A subset of the environment consisting of economic institutions, frameworks, nature and structure of the economic system, market forces, economic, fiscal and monetary policies, planning and programmes of the Government, etc.

Interactive Matrix: A two-dimensional tabular device showing the relationship or interdependence between two sets of factors or variables, e.g., economic and non-economic factors, economic and social factors, etc.

6.11 SELF -ASSESSMENT QUESTIONS

1. How would you classify business environment? What could be some criteria? Explain.
2. Examine the basic propositions about business?
3. Discuss some important points about how modern economies are organised and function
4. "All modern economies have certain fundamental economic problems to deal with". Examine and illustrate the statement.
5. Explain the critical elements of economic environment with examples drawn from Indian experiences.
6. Briefly review the development of the economic environment in India. What do you think were the landmark developments?
7. Discuss the salient features of new economic policy of 1991 and the initiatives taken by the Government for economic restructuring.
8. How does the economic environment impinge upon business management? Explain with suitable examples.
9. How are economic and non-economic environment interrelated? Explain.

6.12 FURTHER READINGS

Adhikary, M., 1997. *Economic Environment of Business.* (Ch. I & VIII), Sultan Chand & Sons; Delhi.

Ghosh, Alak, 1997, *Indian Economy: Its Nature and Problems*, The New Book Stall, Calcutta.

BLOCK 3

POLICY FRAMEWORK AND PROCEDURAL ASPECTS

Block 3 on policy framework and procedural aspects consists of 2 units. Unit 7, describes the salient features of current Import – Export Policy of India.

The transfer of ownership and possession in international trade has typically been associated with a large number of documents and attendant procedures. Unit 8 describes the various documents associated with exports appropriately categorised to facilitate understanding. Export procedures have also been sequentially discussed.

UNIT 7

IMPORT EXPORT POLICY OF INDIA 1992-97

Objectives

After reading this unit you should be able to:
- list out major features of the policy
- identify the purview of the policy

Structure

7.1 INTRODUCTION

The central government announced sweeping changes in the trade policy on 4th July 1991 & 13th August 1991. The new Import Export policy which has come into force w.e.f, 1st April 1992 is a step forward in the direction of these trade policy reforms. For the first time, the duration of the policy has been made as 5 years in order to give a stability enabling the business community to make their plans effectively. The current policy shall be in force till 31st March 1997.

The principal objectives of this policy are as follows:

a) To establish the framework for globalisation of India's foreign trade;

b) To promote the productivity, modernisation and competitiveness of Indian industry and thereby enhance its export capabilities;

c) To encourage the attainment of high and internationally accepted standards of quality and thereby enhance the image of India's products abroad;

d) To augment India's exports by facilitating access to raw materials, intermediates, components, consumables and capital goods from the international market;

e) To promote efficient and internationally competitive import substitution and self-reliance under a deregulated framework for foreign trade;

f) To eliminate or minimise quantitative, licensing and other discretionary controls in the framework of India's foreign trade;

g) To foster the country's Research and Development (R&D) and technological capabilities; and

h) To simplify and streamline the procedures governing exports and imports.

7.2 MAIN FEATURES

1) Exports and Imports may be freely, subject only to Negative List of Imports and Exports.

2) The number of canalised goods has been drastically reduced and is confined to certain petroleum products, fertilisers, edible oils, cereals and a few other items.

3) The import of consumer goods and durables continue to be under restraint.

4) The scope of the Duty Exemption Scheme has been enlarged by introducing Value Based Advance Licences besides the Quantity Based Advance Licences. The Duty drawback rates have also been raised for 161 items.

5) Export houses, Trading houses and Star Trading houses will be eligible for the facility of self-certification under the Advance Licence Scheme.

6) The Export Promotion Capital Goods (EPCG) Scheme has been liberalised. Two windows will be now available for import of capital goods at concessional rates of customs duty at 25% or 15% with corresponding export obligations.

7) Gem and jewellery export promotion schemes are continued with little modification.

8) EOUs and EPZs given greater autonomy and flexibility. Will be allowed to install own machinery or take machinery on lease. May also export their production through Export Houses, Trading Houses or Star Trading Houses.

9) Registration – cum-Membership Certificate (RCMC) issued by Export Promotion Councils will continue to be an essential requirements for any importer/exporter to avail of the benefits or concessions or to apply for any licence under the new policy.

10) Duty Exemption Schemes, duty drawback schemes and exemption from terminal excise duty have been extended to Deemed Exports.

11) Special Import Licences to certain categories of exports and exporters. These include: deemed exports, Export Houses, Trading Houses, Star Trading Houses and manufacturers who acquire ISO 9000 (series) or BIS 14000(series) certification of quality.

12) Government to launch a major nation-wide campaign on quality awareness and to take other steps to bring Indian products to world standards.

Activity 1

Visit any company engaged in Export/Import activities and find out the impact of the import-export policy on its business.

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7.3 IMPORTS

a) Capital goods, raw materials, intermediates, components, consumables, spare parts, accessories, instruments & other goods may be imported freely subjected to a small negative list.

b) Consumer goods will continue to be under restraint.

c) Special import facilities given to hotels & tourism industry & for sport bodies.

d) Actual user condition eliminated except in a few special cases.

e) Second hand capital goods may be imported without a licence in certain specified sectors. Other second hand capital goods to be imported in accordance with a licence issued on this behalf. The second hand capital goods shall not be more than seven years old & shall have a minimum residual life of five years. Import of second have capital goods shall be subject to Actual User condition in all cases.

7.4 EXPORTS

Free Exports: All goods may be exported without any restriction except to the extent such exports are regulated by the negative list of exports or any other provisions of the policy. Negative list of exports has been pruned.

Registratioh – cum – Membership Certificate (RCMC): Any person applying for a licence to import or export or for any other benefit or concession under the policy shall be required to furnish his Registration – cum- Membership certificate (RCMC) number granted to him by an Export promotion Council (EPC) of which he is a member.

Denomination of Contracts: All export contracts shall be denominated in freely convertible currency. Contracts for which payment are received through the Asian Clearing Union (ACU) may be denominated in the country of the exporter or importer or in any freely convertible currency and all such payments shall be deemed to have been received in convertible currency.

Export Contracts with RPA countries : Exports to Rupee Payment Area (RPA) countries/former Rupee payment Area(RPA) countries may be made under the terms of the Trade Agreement /Protocol signed with such countries. However, exports to such countries against payments in non-convertible Indian rupees may be required to be registered with such authority as may be specified in this behalf.

Re-exports: Goods imported from any country in the General Currency Area (GCA) in accordance with the policy shall not be re-exported in the same or substantially the same form, without a licence, to any country in the Rupee Payment Area (RPA).

Deemed Exports: "Deemed Exports" means those transactions in which the goods supplied do not leave the country & the payment for the goods is received by the supplier in Indian rupees, but the supplies earn or save foreign exchange for the country. The policy specifies number of categories of supply of goods which shall be regarded as "Deemed Exports", provided the goods are manufactured in India & the payment is received in Indian rupees. These include supply of goods to foreign ships & airlines, ONGC, OIL, GAIL, units located in export processing zones , export oriented units, projects financed by ADB, IBRD,IDA,IFAD,OPEC,SFD,OECF & other agencies notified by the Central Government , supply of capital goods to fertilizer plants in India, supply of capital goods to holders of licence under Export promotion Capital Goods scheme , supply of goods against licences issued under the Duty Exemption Scheme.

Deemed exports are eligible for following benefits:

a) Duty Exemption Scheme

b) Duty Drawback Scheme

c) Refund of terminal excise duty

d) Special import licences, for such value or bearing such proportion to the value of the deemed export, for the import of such items included in the negative list of imports as may be specified under a scheme to be notified in this behalf.

7.5 EXPORT PROMOTION CAPITAL GOODS SCHEME

Scheme:

Capital goods may be imported with a licence under the Export Promotion Capital Goods(EPCG) Scheme.

Import on Concessional Duty:

Capital goods may be imported, at a concessional rate of customs duty according to the conditions given in the table below, but subject to an export obligation to be fulfilled over a period of time. Such export obligation may be reckoned from the date of customs clearance of the first consignment of such imported goods.

Duty	Export Obligation	Period
25% CIF value	3 times CIF value	4 years
15% CIF value	4 times CIF value	5 years

Eligibility:

A manufacturer – exporter to be eligible to import capital goods under the scheme should have been a regular exporter for a period of not less than three years. However, import of capital goods under the scheme may also be allowed, on merits, to other manufacturer-exporter who are new exporters or whose export performance is for a period of less than three years. Testing equipment, R&D equipment, packaging machinery and such other machinery or equipment as may be specified may also be imported under the scheme.

Both new and second hand capital goods may be imported under the scheme. The export obligation under the scheme shall be in the form of direct exports of the products manufactured with the capital goods permitted to be imported. The import of capital goods under the scheme shall be subject to actual user condition.

7.6 DUTY EXEMPTION SCHEME

Under the Duty Exemption Scheme, imports of duty free raw materials, components intermediates, consumables, spare parts including mandatory spares & packing materials required for the purpose of export productions may be permitted by the competent authority under the five categories of licences mentioned below:

1) Advance licence
2) Advance Intermediate licence
3) Special Imprest licince
4) Advance customs clearance permit
5) Licences under production programme.

7.7 EXPORT HOUSES, TRADING HOUSES & STAR TRADING HOUSES

Under the exclusive schemes for export promotion Six Free Trade Zones have been established by the Government of India. These zones are designed to provide every facility required to generate export production namely, developed plots or built-up space to entrepreneurs for establishing 100% export oriented industries. The infrastructure provided in these zones includes water and power supply, communications, banking, warehousing , access roads, transport services, custom bonding arrangements etc.

The first Free Trade Zone was established at Kandla in 1965, followed by SEEPZ in 1073. Four others are at FALTA (Calcutta), NOIDA(U.P), Madras and Cochin. All these Free Trade Zones except SEEPZ, are multi-product zones where a variety of export products can be manufacture and exported. SEEPZ is the Electronics Export Processing Zone at Santacruz, Bombay.

EXPORTS FROM FREE TRADE ZONES

Free Trade Zone	Exports (Rs. crores) 1990-91	1989-90	1988-89	1987-88
Kandla FTZ	456.55	338.23	271.59	185.05
S.E.E.P.Z.	389.02	285.01	185.19	110.14
Madras EPZ	61.32	29.56	24.04	16.45
Falta EPZ	24.95	16.38	8.11	1.86
Cochin EPZ	5.46	11.00	6.25	3.94
Noida EPZ	44.58	51.90	21.34	16.05
Vizg EPZ	-	-	-	-
Total *	**981.88 (3.02)**	**732.08 (2.64)**	**516.52 (2.55)**	**333.49 (2.13)**

* Figures in brackets are percentages to total exports of India.

Merchant and manufacturer exporters and trading companies including those having foreign equity. Export Oriented Units (EOUS) and units located in Export processing Zones (EPZs)have been recognised as Export Houses, Trading Houses or Star Trading Houses under criteria which were laid down from time to time upto 31st March 1992. With effect from 1st April 1992, the criterion for recognition as Export House, Trading House or Star Trading House shall be the average annual NFE during the three preceding years or the NFE during the preceding year, whichever is satisfied as follows:

Category	Average annual Net Foreign Exchange (NFE) earned during the base period i.e. 3 preceeding licensing years, in Rupees	Net Foreign Exchange (NFE) earned during the base period i.e., preceding licensing year, in Rupees
Export Houses	6 Crores	12 Crores
Trading Houses	30 Crores	60 Crores
Star Trading Houses	125 Crores	150 Crores

Benefits

Export Houses / Trading Houses / Star Trading Houses shall be entitled to special import licences, for such value or bearing such proportion to the NFE earned during the previous licensing year, for the import of such items included in the Negative List of Imports as may be specified under a scheme to be notified in this behalf.

7.8 EXPORT ORIENTED UNITS & UNITS IN EXPORT PROCESSING ZONES

Eligibility

Units undertaking to export their entire production of goods may be set up under the Export Oriented Unit (EOU) Scheme or Export processing Zone (EPZ)Scheme. Such units may be engaged in manufacture, production of software , horticulture , agriculture, acquaculture, animal husbandry or similar activity. Units engaged in service activities may also be considered on merits.

Importability of Goods

The unit may import free of duty the following goods required by them for production provided they are not prohibited items in the Negative List of Imports.

a) Capital goods including captive power plants ;

b) Raw materials, components, intermediates, semi – finished goods, spares-parts and consumables;

c) Proto – types, office equipment and consumables for office equipment ; and

d) Material handling equipment such as forklifts, overhead cranes etc,

Export Obligation

The folowing supplies shall be counted towards fulfilment of the export obligation :

a) Supplies effected in Domestic Tariff Area (DTA) under global tender conditions ;

b) Supplies effected in DTA against payment in foreign exchange ;

c) Supplies against Advance Licences and other import licences;

e) Supplies with the permission of the Development Commissioner , to other EOUs/EPZ Units.

Benefits for EPZ/EOU Units

Concessional Rent : The units set up in the EPZs will be eligible for concessional rent for lease of industrial plots and standard design factory (SDF) buildings / sheds allotted for the first three years at the following rates :

For Plots : The concession will be 75% for the first year , 50% for the second year and 25% for the third year if production had commenced in the first year or the second year. The concession will not be available for the third year if production had not commenced by the end of the second year ;

For SDF Buildings / Sheds : The concession will be 50% for the first year and 40% for the second year if production had commenced in the first year. The concession will be 25 % for the third year if production had commenced in the first year. The concession will not be available if production had not commenced by the end of the first year ;

Tax Holiday : EOUs and EPZ units will be exempted from payment of corporate income tax for a block of five years in the first eight years of operation;

Clubbing of NFE: Net Foreign Exchange (NFE) earned by an EOU/EPZ unit can be clubbed with the NFE of its parent/associate company in the DTA for the purpose of according Export House, Trading House or Star Trading House status for the latter;

IPRS: The International Price Reimbursement Scheme for supply of iron and steel will be available to EOUs and EPZ units; and

100% Foreign Equity : Foreign equity upto 100% is permissible in the case of EOUs and EPZ units.

Activity 2

Number of new 100% export oriented units are coming up these days & tapping the capital market for funds . Obtain prospectus or share application forms of a couple of these companies & study the project details like benefits given by the government to them, export prospects, marketing arrangements etc.

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7.9 SUMMARY

This unit has discussed various aspects of the current import export policy of India (1992-97). In order to boost exports & make available latest technologies in India, several schemes have been introduced by the Government like Export Promotion Capital Goods Scheme, Duty Exemption Scheme, Special benefits for export oriented units etc. Import restriction have also been eased for most of the products.

Though this policy is valid for a period of 5 years, some small changes are made by the Govt. over period of time keeping in view the economic conditions and industry's demand.

7.10 SELF – ASSESSMENT QUESTIONS

1) Which of the following categories of goods are under restraint for imports?
   a) Capital Goods
   b) Consumer Goods

c) Raw Materials

d) Spares for Capital Goods

2) Which of the following is/are Deemed Exports?

a) Supply of machinery by L&T Bombay to GEC in U.K.

b) Supply of machinery by L&T Bombay to NTPC, India for an IDA assisted power project.

c) Supply of machinery by L&T Bombay to ONGC, India.

3) A pharmaceutical company is manufacturing & exporting formulations. It intends to import machinery worth Rs. 5 cores CIF for manufacturing disposable syringes with a concessional import duty of 25% under EPCG scheme. To fulfil its export obligation, it has to export.

a) 15 cores worth of any product in a period of 4 years.

b) 15 cores worth of formulations & disposable syringes manufactured by the company, in a period of 4 years.

c) 20 cores worth of disposable syringes manufactured by the company on the machines being imported, in a period of 5 years.

d) 15 cores worth of disposable syringes manufactured by the company on the machines being imported, in a period of 4 years.

4) M/s ABC Corporation imported goods from U.K. against payment in Pound Sterling & want to export the same to another country against Rupee payment. Is the company required to take approval from the government for doing so?

5) What are the full forms of the following abbreviations?

a) EOU b) RPA c) NFE

Answers:

1) b 2) b & c 3) d 4) Yes 5) a) Export Oriented Unit

b) Rupee Payment Area

c) Net Foreign Exchange

7.11 FURTHER READINGS

Import – Export Policy & Hand book of Procedures – Government of India Publication.

7.12 APPENDIX: OTHER LIBERALISATION MEASURES

With a view to make foreign trade freer, boost exports & encourage foreign investments in India, Govt. has taken a number of steps in addition to the provisions in EXIM policy. These include convertibility of rupee, liberalising industrial policy, NRI policy & are discussed in brief here below.

A. NEW INDUSTRIAL POLICY 1991

Government tabled a statement on Industrial Policy in both the houses of Parliament on July 24, 1991.The statement has substantially reduced the requirement for various types of industrial approvals. Some of the major features of this policy and subsequent notifications, which have a bearing on India's international trade like provision for foreign technology agreements, foreign investments in India etc. are highlighted here below:

a) In projects where imported capital goods are required, automatic clearance to be given in cases where foreign exchange availability is ensured through foreign equity.

b) Approval for direct foreign investment upto 51% foreign equity in specified high priority industries.

c) To obtain access to international markets, majority foreign equity holding upto 51% equity to be allowed for trading companies primarily engaged in export activities.

d) Automatic clearance to foreign equity proposals in the small sector.

e) Automatic permission for foreign technology agreements in specified high priority industries.

f) No permission is necessary for hiring of foreign technicians and no applications need to be made to Govt. for this purpose irrespective of whether the hiring of foreign technicians is under an approved collaboration agreement or not.

g) Foreign investment proposals in India need not necessarily be accompanied by foreign technology agreement, unlike the earlier policy.

h) Till May 1992, all LOIs & Foreign collaboration Approvals issued by the Ministry of Industry, contained a condition prohibiting the use of any foreign name/trade mark on goods for sale within the country. This condition was not applicable in the case of exports. On 14th May 1992, Ministry of Industry (Department of Industrial Development), Govt. of India, vide its press note No. 6 has specified that henceforth no such condition would be imposed by this ministry or RBI, while granting letters on Intent/Foreign collaboration approvals.

B. NON – RESIDENT INDIANS INVESTMETN POLICY:1991

Wide range of facilities have been provided to NRI's (i.e. individuals of India nationality or origin resident outside India and overseas corporate bodies owned to the extent of atleast 60% by such persons/OCB's) for direct investments, the most prominent among them is providing "Automatic Approval for investment upto 100% in High Priority Industries".

Automatic Approval for Investment upto 100% in High Priority Industries:

NRIs/OCBs will be permitted to invest with full repatriation benefits upto 100% in the equity issue of a private/public limited company engaged in high priority industries listed in Annexure III to the Statement on Industrial Policy. Reserve Bank will grant automatic approval for such proposals provided-

i) The foreign equity covers the foreign exchange requirement for import of capital goods, if any. The plant and machinery proposed to be imported must be new and not second hand.

ii) Outflow on account of dividend payments is balanced by export earnings over a period of seven years from the commencement of commercial production. Remittance of dividends should be covered by earnings of the company from export of items of Annexure III of Industrial Policy either recorded in years prior to the payment of dividend or in the year of payment of dividend.

iii) The proposed project is not located within 25 kms from the periphery of the standard urban area limits of a city having a population of more than 10 lakhs according to 1991 census.

The above facility will be available for new investments for expansion as well as for diversification of existing industrial undertakings.

The above facility will also be available for making investment by individual NRIs in partnership firms in India.

C. CONVERTIBILITY OF RUPEE

j) A major policy change of far- reaching importance announced in the Union Budget 1992-93 presented by Dr. Manmohan Singh is the introduction of a new system of partial convertibility of the rupee. With partial convertibility of rupee, the system of exim script introduced in the trade policy in 1991 stands abolished.

Under the new system, all foreign exchange remittances, whether earned through export of goods and services, or remittances, will be converted into rupees- 40% of the foreign exchange remitted will be converted at the official exchange rate while the remaining 60% will be converted at the market determined rate. The foreign exchange surrendered at the official exchange rate will be available to meet the foreign exchange requirements of essential imports such as petroleum, oil products, fertilisers, defence and life saving drugs.

All other imports including capital goods will be freely importable on OGL but the foreign exchange for these imports will have to be obtained from the market.

Foreign exchange required for other payments on private account including travel, debt service payments, dividends, royalties and other remittances will also have to be obtained at the market rate.

For the purpose of calculation of customs duty, the import value of goods is to be converted into Indian Rupees as per the market rate.

Table: Market Exchange Rate of Indian Rupee

1992	U.S.$	£Sterling
	Rupee per unit of foreign currency	
March 31	31.23	53.69
April 30	30.61	54.13
May 28	30.89	55.40
June 30	30.66	58.48
July 31	30.11	58.06
Aug 28	30.49	59.97
Sept. 30	30.04	53.69

Note: Before the partial convertibility introduced on 1.3.92, rate was 1$ = Rs. 26.04.

ii) In the union Budget 1993-94 presented by Dr. Manmohan Singh on Feb 27, 1993, Rupee has been made fully convertible on trade account, thereby abolishing the dual exchange rate mechanism introduced in the previous budget as described above.

UNIT 8

IMPORT- EXPORT DOCUMENTATION

Objectives

After going through this unit you should be able to:

- explain the significance of documentation and related procedures in export import transactions,
- describe the basic purpose which each document and related procedure seeks to serve,
- develop familiarity with the documents and related procedures needed in executing an export order,
- acquire a systematic approach towards documentation in your organization.

Stucture

8.1 INTRODUCTION

Documentation and procedures, though complex and cumbersome are integral part of international marketing operations. Full knowledge and accurate compliance of procedures and documentation formalities are as essential as looking into other areas of marketing mix to ensure success in international marketing. Inadequate understanding of the various formalities on the part of the managers results in protracted correspondence, adversely affecting the business and cash flow due to delays in realisation of export proceeds as also the various incentives.

8.2 NEED

The physical transfer of goods in international trade has traditionally been associated with a number of documents. Over the years, however, the number of documents and related procedures has multiplied making international trade complex and cumbersome. Need for documentation arises primarily because of certain peculiarities of international trade transactions. Unlike domestic trade, buyers and sellers are separated by long distances in overseas trade transactions. This necessitates concluding a formal contract laying down duties and responsibilities of buyers and sellers respectively. Moreover, some intermediation becomes inevitable. No international trade transactions can be completed without the assistance of atleast three intermediaries – a carrier, who undertakes to deliver the goods to the buyer on behalf of seller, an insurance company that covers the risks arising out of hazards of long voyage and finally a banker who collects the sale proceeds from the buyer and hands over the same to the exporter. Besides, other intermediaries are freight forwarders, freight brokers, chambers of commerce etc. Documentation and attendent formalities become necessary to ensure compliance of contract obligations of the concerned parties i.e., the exporter, importer and intermediaries.

International trade also means trading relationship between the citizens of two independent sovereign states. International trade is state regulated everywhere, even US government regulates the export import operations of domestic firms and insists on documentation for information and control purposes. In India, several documents have been prescribed to ensure compliance of Export Trade Control, Foreign Exchange Regulations, Quality Control and Preshipment Inspection, Central Excise etc.

Activity 1

What is the underlying rationale for documentation? Discuss from the exporter's point of view.

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8.3 KINDS OF DOCUMENTS

These documents can be broadly classified into the following six categories:

i) Documentation as per requirements of the contract;
 a)Commercial Invoice
 b) Packing list
 c)Insurance Certificate / Policy
 d) Bill of exchange
 e) Shipment Advice
 f) Certificate of origin
 a) Inspection Certificate.
 b) Transportation Documents:
  -Bill of lading
  -Airway bill
  -Combined Transport Document

ii) Documentation as per requirement of Government of India :
 i) Export License, if necessary ,
 ii) AR4/AR4A Form
 iii) GPI /GPII Form
 iv) Preshipment Inspection Certificate
 v) Export Declaration Form
  GR/EP/PP/VPP/COD Form
 vi) Shipping Bill

iii) Documents as per requirement of the Importing Country :
 i) Customs Invoice
 ii) GSP Certificate of Origin

iv) Documents required for claiming export assistance:
   1) Application form
   2) Shipping Bill duly authenticated by customs
   3) Commercial invoice attested by bank
   4) Bank certificate
   5) Statement of Exports certified by the negotiating bank
   6) Registration cum membership form of concerned export promotion council.

Another way of looking at the document is to classify them as principal and auxiliary documents.

Principal Documents

These are :

1) Commercial Invoice
2) Packing List
3) Marine Insurance policy / Certificate
4) Bill of Exchange
5) Letter of Credit
6) Bill of Lading
7) Airway Bill
8) Combined Transport Document
9) GR/EP/PP/VPP/COD Forms
10) Export Inspection Certificate
11) AR4/AR4A Forms
12) GPI/GPII
13) Shipping Bill
14) Certificate of Origin
15) Shipment advice.

Auxiliary Documents

These documents may be required for the preparation or procurement of some of the principal documents or for arranging some of the preliminaries in effecting shipment of goods, such as giving shipping instructions to freight forwarders, arranging preshipment inspections, marine insurance cover, shipping space, procurement of bills of lading etc.

Documents normally required are:

1) Shipping Instructions Form
2) Application for Export Inspection Agency
3) Shipping Order
4) Mate Receipt and
5) Dock Challan.

Activity 2

What is the underlying difference between principal Documents and Auxiliary Documents ?

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8.4 PRINCIPAL EXPORT DOCUMENTS

Managers concerned with export/import business should be well acquainted with all the documents which are needed from time to time. These documents are briefly explained below:

Commercial Invoice

it is a basic document which gives full details of the contents of the shipment and serve as seller bill of goods and, therefore , sets out the terms of sale , An exporter is required to prepare this complete document which must fully identify the overseas shipment and serve as a basis for the preparation of all other documents which, ,in greater or lesser detail reproduce information from it.

Normally , apart from the special requirements of the importer, form of invoice will be similar to that used for domestic business . These is no standard form and it is left to the exporter to change his own design , always ensuring that it will be convenient for use by foreign parties. In fact, the exporter should strictly follow the requirements of the purchaser in regard to invoicing and, as the requirements of foreign laws vary widely and are revised from time to time , it is important for an exporter to keep himself fully informed about such changes in government regulations of the importing countries.

According to the Uniform Customs and Practices for Credit

i) Unless otherwise specified in the credit , commercial invoices must be made out in the name of the applicant for the credit ;

ii) Unless otherwise specified in the credit, banks may refuse commercial invoices issued for amounts in excess of the amount permitted by the credit, and

ii) the description of the goods in the commercial invoice must correspond with the description of the goods in the credit.

The following check list of the items making up a commercial invoice should always be kept in view though not all items are required for every transaction:

Name and address of the shipper
Invoice number and date
Buyer's and Seller's Order number
Name and address of the overseas customer (buyer)
Name of the vessel and sailing date
Terms of payment
Insurance reference
Customs and consular declaration
Shipping marks and number on packages
Quantities and description of commodities
Net weight and gross weight as well as measurement in metric units
Specification of packing
Unit price and total value
Terms of sale (F.O.B., C.I.F., C & F, FAS, etc.,)
Any additional charges which should be itemised such as packing, cartage, consular, etc. (if the contract is on f.o.b. basis)
Bill of Lading number
Import Licence number and Date
Letter of Credit number and Date

Proforma invoice

It is a preliminary, provisional, temporary invoice for an anticipated shipment which might or might not take place. Such invoices serve certain useful function in that the overseas buyer is then in a position to deal with certain requirements before placing the order, e.g. obtaining an import licence. Secondly, proforma invoices, if made out, can be supplied to the bank when a Letter of Credit is to be established by the overseas buyer with the instructions that the L.C. (letter of credit) be opened in accordance with the invoice.

Packing List

Exporters are required to prepare an accurate packing list showing, item by item, the contents of the packages or cases so as to enable the receiver of the shipment to carry out a check. The packing list should give a description of the goods, number and marks on the packages, quantity per package, net and gross weight, measurement, etc. Properly prepared, these packing lists ensure movement of goods and avoid unnecessary unpacking.

There is no particular form to be used but for purposes of guidance a specimen copy may be seen.

Marine Insurance Policy /Certificate

A marine insurance policy/certificate is a document associated with transit of goods in trade, whereby the insurer undertakes to indemnify the assured against damage for loss of goods due to risks/

hazards in transit, to the extent and in the manner mentioned in this document. In a CIF contract of sale, the seller has to take the requisite insurance cover to protect his own as well as the buyer's interests in case of damage or loss of goods. The insurance policy/certificate must be such as to satisfy the conditions of the letter of credit/sales contract, and must cover all risks specified therein, or which are considered to be normally associated with trade in a particular product.

Bill of Exchange

An exporter can send a bill of exchange for the value of the invoice of goods for export through the banking system for payment by an overseas buyer on presentation. A bill of exchange is legally defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to which it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money, to or to the order of, a specified person, or to bearer".

In other words an exporter prepares a bill of exchange (which looks something like a cheque) which is drawn on an overseas buyer, or even on a third party as designated in the export contract, for the sum agreed as settlement.

The bill is called a sight draft if it is made out payable at sight i.e. 'on demand'. If it is payable 'at a fixed or determinable future time' it is called a term draft, because the buyer is receiving a period of credit, known as the tenor of the bill. The buyer signifies an agreement to pay on the due date by writing an acceptance across the face of the bill.

By using a bill of exchange with other shipping documents through the banking system, an exporter can ensure greater control of the goods, because until the bill is paid or accepted by the overseas buyer the goods cannot be released. Conversely, the buyer does not have to pay or agrees to pay by some agreed date until he receive delivery of the goods from the exporter.

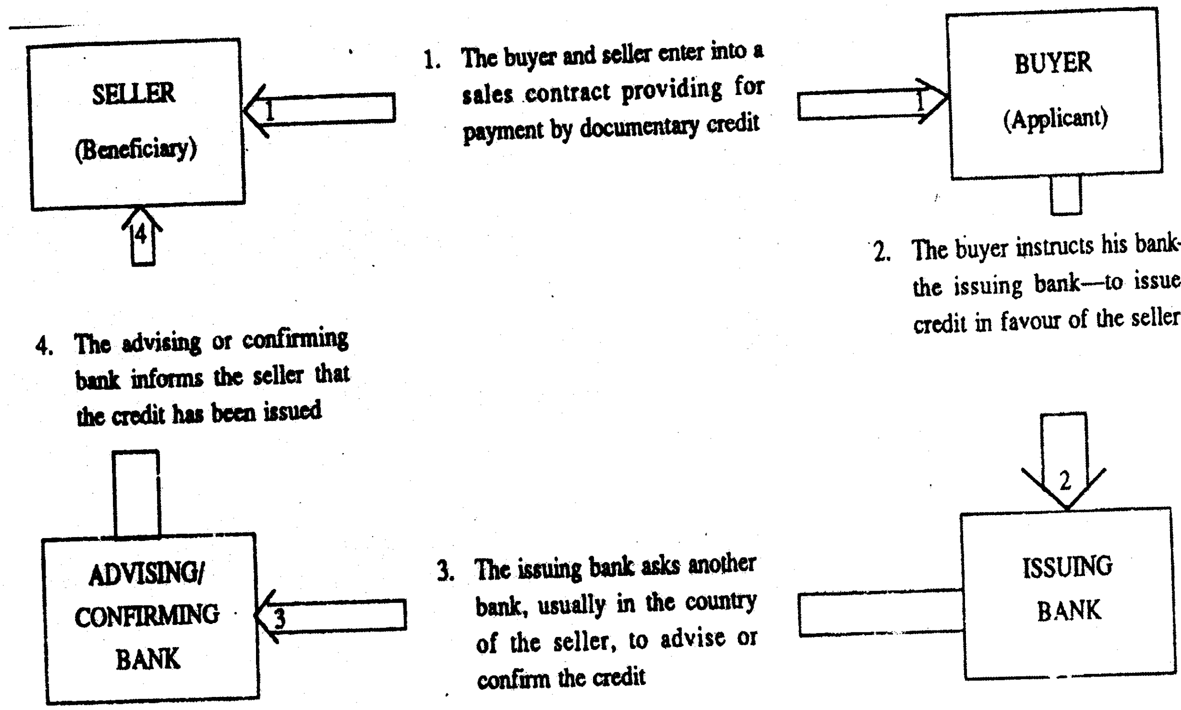
An exporter can pass a bill of exchange to a bank in India. The Indian bank forwards the bill to its overseas branch or to a correspondent bank in the overseas buyer's country. This bank, known as the collecting bank, presents the bill to whomever it is drawn upon, for immediate payment if it is sight draft, or for acceptance if it is a term draft. This procedure is known as a clean bill collection because there are no shipping documents required. Clean bill collections have become more popular, particularly, in some European countries where the method is also used in internal trade.

However, it is more likely that bills are used in a documentary collection method of payment. In this case, an exporter sends the bill to the buyer through the banking system with the shipping documents, including the document of title to the goods i.e. an original bill of lading. The bank then releases the documents on payment or acceptance of the bill by the overseas buyer.

Letter of Credit

A letter of credit is a written undertaking by a bank, the issuing bank, to the seller, the beneficiary, in accordance with the instructions of the buyer, the applicant, to effect payment upto a prescribed amount, within a prescribed time period against prescribed documents, provided these are correct and in order i.e. they conform with the instructions of the applicant. Letters of credit are one of the most used methods of payment in international transactions. Letters of credit are usually issued subject to the provisions of the "Uniform Customs and Practices for Documentary Credits" issued by the International Chamber of Commerce. It contains the rules governing the letter of credit transactions and the interpretation of various terms relating thereto and has been subscribed by almost all the major trading countries of the world.

There are usually two banks involved in a documentary credit operation. The issuing bank is the bank of the buyer. The second bank, the advising bank, is usually a bank in the seller's country. The second bank can be simply an advising bank, or it can also assume the more important role of a confirming bank. In either case, it undertakes the transmission of the credit, and by doing so, implies the authenticity of the signature of the issuing bank. If the second bank is simply "advising the credit" it will mention this fact when it forwards the credit to the seller. Such a bank is under no commitment to pay the seller. If the advising bank is also 'confirming the credit' it will so state. This means that the confirming bank, regardless of any other consideration, must pay, accept, or negotiate without recourse to the seller, provided all the documents are in order & the credit requirements are met. Figure below summarizes the relationships between the partners to the letter of credit. A letter of credit contains all essential details like seller's name, buyer's name, value, usance documents required, description of goods, shipment & negotiation dates, port of shipment & destination etc.



Letters of credit used in international trade are of various types:

a) **Revocable and Irrevocable Letters of Credit:** A revocable letter of credit is rather rare now-a-days because it means that the terms of the credit can be cancelled or amended by an overseas buyer without prior notice to the exporter. Most letters of credit are irrevocable which means that once buyer's conditions in the letter have been agreed by an exporter, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the exporter's agreement.

b) **Confirmed and Unconfirmed Letter of Credit :** A confirmed letter of credit carries the confirmation of another bank, generally, in the country of the exporter. Such confirmation, added at the request of the issuing bank, binds the confirming banker to negotiate the drafts drawn under the credit provided the terms and conditions thereof are fulfilled.

c) **Without Recourse and with Resource:** A 'without recourse to drawer' letter of credit is one under which the negotiating bank cannot have a recourse against the exporter if the draft is subsequently not taken up or reimbursed by the issuing bank provided, of course, the negotiation is without recourse.

d) **Sight and Usance:** Documentary credit may provide for payment at sight or for acceptance of a usance bill of exchange by either issuing bank in a buyer's country or the correspondent bank in exporter's country.

e) **Transferable:** A transferable letter of credit is one which can be transferred by the beneficiary named therein in favour of another party. A credit can be transferred only if it is expressly designated as transferable by the issuing bank.

Straight and Negotiation Credit

A negotiation credit enables either a specifically nominated bank (or any bank, if the words "Freely negotiable by any bank" are used in the credit) to check the documents and, if they are in order, to pay them less the interest for the time it will take to obtain reimbursement from the issuing bank. Sellers would require negotiation credits where the currency of the credit is not their own currency, or where the seller's local bank offers preferential rates or service.

Generally, a negotiation bank pays with recourse to the beneficiary if any thing goes wrong, but the legal position is by no means settled. This is a very important point for beneficiary, as under every other kind of Letter of Credit there is no recourse to him. All beneficiaries under negotiation credits should settle with the negotiating bank at payment, whether recourse to the beneficiary is reserved or not.

Revolving Letter of Credit

A revolving letter of credit is one which revolves to its face value as soon as the bill negotiated under the credit is paid. Letters of credit can be made revolving on certain other conditions, e.g. negotiation of draft without waiting for the bill to be paid, at fixed periods-say monthly or every quarter, etc. Revolving Letter of Credit are used when regular and continuous payments are required to be made to the exporter.

Red Clause Credits

Red clause credits contain an authorization by the issuing bank to the advising or confirming bank to make advances to the beneficiary before presentation of documents. The description red clause arises from the colour of the ink that is used to draw attention to the credit's special condition.

The purpose of these credits is to provide preshipment finance to the seller who might not otherwise be capable of raising the finance to produce the merchandise desired by the buyer.

Green Clause Credit

Green clause credit is similar to red clause but advance is given only against a warehouse receipt given by the beneficiary.

Back to Back Letter of Credit

A letter of credit issued on the strength of another letter of credit. It is in effect ,an extension of the terms and conditions of the backing credit. Usually, the beneficiary under such credit is a supplier to the beneficiary of the backing credit.

Some of the important points laid down in uniform customs and practices for documentary credits issued by ICC, are as follows:

1) All credits should clearly indicate whether they are revocable or irrevocable. In the absence of such indicators the credit shall be deemed to be revocable.

2) A revocable credit, may be amended or cancelled by the issuing bank at any moment and without notice to the beneficiary.

3) An irrevocable credit constitutes a definite undertaking of the issuing bank , provided that the stipulated documents are presented & that the terms & conditions of the credit are complied with.

4) When an issuing bank authorizes or requests another bank to confirm its irrevocable credit & the latter has added its confirmation, such confirmation constitutes a definite undertaking of such bank (the confirming bank), in addition to that of the issuing bank, provided that the stipulated documents are presented & that the terms & conditions of the credit are complied with.

5) All credits must clearly indicate whether they are available by sight payment, by deferred payment, by acceptance or by negotiation.

6) Banks assume no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general and / or particular conditions stipulated in the documents or super imposed thereon, nor do they assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods represented by any documents or for the good faith or acts and/or omissions, solvency, performance or standing of the consignor, the carriers, or the insurers of the goods, or any other person whomsoever.

7) All credits must stipulate an expiry date for presentation of documents for payment, acceptance or negotiation.

8) The description of the goods in the commercial invoice must correspond with the description in the credit. In all other documents, the goods may be described in general terms not inconsistent with the description of the goods in the credit.

9) Credits should stipulate the type of insurance cover required and, if any, the additional risks which are to be covered. Failing specific stipulation in the credit, banks will accept insurance documents as presented, without responsibility for any risk not being covered.

CHECKLIST FOR THE SELLER AFTER THE DOCUMENTARY CREDIT OPENING

General points

- Does the documentary credit correspond with the contract, especially in connection with the following points?
  - Amount/unit price
  - Period of validity/time limit for shipment
  - Terms of delivery.
  - Description and origin of the merchandise
- Is the documentary credit revocable, irrevocable/unconfirmed or confirmed?
- Is it transferable, if necessary?
- If unconfirmed or confirmed by a bank abroad, how do you assess the
  a) Credit risk
  b) Conditions in the buying country (political and transfer risks)
  c) Mailing risk (if credit is available abroad)?
- Are the names and addresses of the applicant and the beneficiary correct?
- Is the documentary credit subject to the ICC's currently valid Uniform Customs and practice for Documentary Credits?
- Is there sufficient time available to complete attestation and authentication procedures?
- Are declarations request in the documents which cannot be made?
- Are documents stipulated which are contradictory to the terms of delivery?
- Does the credit stipulate documents which need to be drawn up or countersigned by the buyer or his bank? In such a case, the utilization of the credit depends to a large extent on the goodwill of the buyer.
- Can the required number of specified documents be furnished?

Deadlines and shipment of goods

- Can the shipment deadline be met?
- Are the terms regarding the place where the goods are to be taken into possession and the points of departure and arrival feasible?
- Are partshipments and transhipments prohibited contrary to the terms of contract?

- Can the prescribed marks and modes of transport be provided?
- Can the documents be presented in the desired form by the dates specified in the credit? (If the credit stipulates a transport document, the documents have to be presented at the bank not later than 21 days after the issue date of the transport document unless the credit stipulates another time limit)
- Are you familiar with the expressions of time utilized in the credit?

Draft

- Are you absolutely certain about the way the draft should be made out?

Invoice

- Can the description of the goods in the invoice be taken word for word from the documentary creddit?

Transport documents in general

- If the transport document is not described precisely, banks do not acdept any document that
    a) is subject to a charter party (only in the case of seaborne transport)
    b) designates, loading on deck (only in the case of seaborne transport)
    c) stipulates carriage by sailing ship
    d) is issued by a forwarding agent (regardless of mode of transport) except in the case of the FIATA Combined Transport Bill of Lading which is recognised by the ICC or where the forwarding agent is also carrier or agent of an expressly named carrier.
- If goods are exported through the intermediary of a company domiciled abroad(a subsidiary), in some countries the value of the merchandise has to be stated in the transport documents. Does this value correspond to the amount and the currency in your invoice?

Marine bill of lading

- The restrictions a), b) and c) listed under "Transport documents in general" are also valid for the marine bill of lading.
- The marine bill of lading should not be issued by a forwarding agent, unless the latter is also a carrier or acts as agent for an expressly named carrier.
- If the bill of lading is to be issued to order of the buyer or is to be made out in his name, it will be extremely difficult to arrange any return of the goods. This point should be taken into full account.
- Do the prescribed freight notations conform to the terms of delivery?

Airway bill

- Air waybills issued by forwarding agents are not accepted by banks unless the forwarders act as carrier or as agents for an expressly named carrier.

Insurance documents

- Can the terms of insurance be fulfilled?
- Are the risks to be covered accurately described in the credit?
- Is the insurance coverage also sufficient to meet your requirements?
- Clarify whether a policy or a certificate is required. (Broker's cover notes will not be accepted by the bank unless expressly permitted in the credit.)

Certificate of origin

- Are the Chamber of Commerce and a consulate willing to attest or authenticate the statements required to appear on the certificate of origin?
- If legalization is necessary, does the respective country maintain a consulate where needed?
- Can a certificate of origin issued in the country of origin be furnished in time?
- Can the legalization be effected in time?

Bill of Lading

Of all the documents, bill of lading is unquestionably the most important and valuable document. Issued by the shipping company, a bill of lading is

- a receipt acknowledgement of cargo delivered for transportation.
- a contract of affreightment between the shipper and the carrier specifying their respective reponsibilities and obligations.
- a document of title to goods and provides interested parties including banks with title to the goods mentioned therein.
- a collateral, that can be used for any advances made to the seller or to the buyer in the process of financing the shipment.

Bills of lading are prepared by the shippers on printed forms supplied by the shipping company concerned and necessary particulars are entered therein the blank spaces provided for the purpose. Normally, a bill of lading shows the date of shipment, port of shipment, name of the carrying vessel, name of the consignor; consignee and notify party, port of discharge, number, contents and identification marks of packages and goods shipped, and the amount of freight 'paid' or 'to pay'. Bills of lading are normally issued in sets of four. Three copies duly signed are delivered to the shipper, while the fourth copy is unsigned and retained by the shipper's master for his own use. Different copies are sent by different mails to reduce the risk involved by delay or loss in transit. Goods are released at the port of destination against one of the copies of the bill of lading presented first and other copies become void. Banks invariably take possession of full set of bill of lading the number comprising the full set being indicated by the bill of lading itself.

Bill of lading may be issued either in negotiable or non negotiable form. A negotiable bill of lading is issued to the order of consignee, or endorsed either in blank by a shipper or endorsed to the order of named party.

An 'on board bill of lading' means that goods have already been loaded on board a named vessel. A 'received for shipment bill of lading' indicates that the goods have been delivered to shipping company but have not been actually placed on any vessel.

A 'through bill of lading' covers shipment of goods for the whole of the contracted voyage, though goods are transshipped during transit.

A 'charter party' is a contract for hiring a ship for carriage of goods either for a voyage or a period of time. As a 'charter party' bill of lading is governed by the charter arrangement it does not give such rights to the shipper as an ordinary bill of lading would give.

Air Way Bill (AWB) / Air Consignment Note

In air carriage, the transport document is known as the Air Way Bill (AWB) or Air Consignment Note. The AWB merely evidences the air carrier's receipt of the goods on the terms of the contract of carriage and does not represent the good/title of goods. The goods are delivered to the consignee (receiver) mentioned in the AWB. The consignee will have to identify himself as the party named in the AWB and the goods may be delivered to him without any hindrance usually on payment of some charges (depending upon the terms of the trade).When the seller has made the contract with the air carrier, the buyer can protect himself against the seller's rerouting of the goods by obtaining the shipper's copy of the AWB (marked "orig. 3 for shipper").

The air carrier may not accept instructions from any person other than the holder of such a copy of AWB, and if this duty is not observed, the air carrier will be liable to pay compensation for the loss incurred.

Some of the important details contained in the AWB are the name of the consignee/consignor/notified party, the flight number and date on which the goods will be airlifted, brief description of the goods and quantity, departure airport and the destination airport freight amount and AWB number and terms on which carriage is undertaken, and signature of carrier / its agent and shipper/agent.

Since the goods reach the destination within the shortest time usually on the same day or the next day, it becomes the duty of the seller to inform the buyer of the despatch of the goods by the use of the telecommunication system to avoid unnecessary additional charges to the buyer.

Combined Transport Document (CTD)

Exporters situated in interior parts of the country face the problem of delay in submitting shipping documents pertaining to the exports made by them to their bankers for negotiation as they have to depend on their shipping agents functioning at sea ports to obtain shipping documents, especially, the marine bill of lading. To obviate this delay and also to popularise containerisation Government have established Inland Container Depots (ICD) at Bangalore and New Delhi. In these depots exporters can arrange to get the goods stuffed in containers, Customs formalities completed and goods despatched to gateway ports in Customs Sealed Containers. The Combined Transport Operator (CTO) when undertaking to export goods from the ICD to the place of destination, will issue the Combined Transport Document (CTD) subject to FEDAI Rules contained in either FEDAI Brochure No. 081 or Brochure No. 082 as the case may be, to enable the exporters to negotiate the shipping documents with an authorised dealer. When goods are exported from ICD's in India and relevant letter of credit does not call for a marine bill of lading, authorised dealers will accept CTDs drawn subject to FEDAI Rules. It may be mentioned that though a bank is authorised to accept a transport document issued by a freight forwarder under the 1983 revision of the Uniform Customs and Practice for Documentary Credits by the International Chamber of Commerce (ICC Brochure No. 400), FEDAI Rules permit issue of CTDs only by a person having as his ordinary course of business the carriage of goods by sea either as owner or charterer of an ocean going vessel. Therefore, exporters, in cases where a CTD is acceptable to overseas buyer, should so arrange that the relevant export contract specifically provide for the production of a CTD drawn, subject to the FEDAI Rules. The date of CTD will be of export in this case.

However, where the letter of credit does not permit acceptance of a CTD or the letter of credit specifically calls for a marine bill of lading, authorised dealers will accept CTDs drawn subject to FEDAI Rules with the CTO's undertaking to have CTD's substituted by marine bill of lading soon after the goods are loaded on board of ocean going vessels. But the bill will be negotiated by the bankers only after the CTD is substituted by regular ocean bill of lading. This position is also applicable in cases where export is not covered by a letter of credit. The date of marine bill of lading will be the date of export in such cases.

Export Inspection Certificate

It is issued usually by Government agency entrusted with the task of inspecting the concerned goods, private firms of repute specialising in inspection or at times buyer's own representative in India. These certificate are required by importers because they wish to be sure of the quality of merchandise and such inspection as is agreed in terms of the sales contract. In India, however, all exports are subject to compulsory inspection prior to shipment by an authorised agency under the provisions of Export (Quality Control and Inspection) Act, 1963. Inspection of export items covered by this legislation are carried out by five regional Export Inspection Agencies under the administrative control of Export Inspection Council. Schemes for compulsory quality control and preshipment inspection are also operated by certain official agencies as well such as Agricultural Marketing Advisor, BIS, Drugs Controller, Tea Board, Coffee Board, Salt Commissioner etc.

The basis for inspection is usually the importer's specifications or in the case of goods involving safety or health hazards, certain minimum standards are enforced.

Export Inspection Certificate issued by the competent authority is required to be submitted to the customs authorities at the time of customs clearance. While negotiating documents banks also insist on submission of Inspection Certificate along with other documents.

Certificate of Origin

This certificate serves as an evidence to show the actual country of origin (place of production or manufacturing) of the goods. It is signed in the exporting country by the consular of the importing country or by the exporter or by the Chamber of Commerce, as the regulations may require. The custom regulations of certain countries require a certificate of origin to be produced before clearance of imported goods and for assessment of duty. The certificate is usually required by the countries where goods from certain countries are granted preferential treatment or where import of goods from certain countries is wholly or partially prohibited. Sometimes, the certificate of origin is endorsed on the back of the relative invoice which is then known as a "certified invoice". In some cases, the certificate of origin is combined with consular invoice for tariff purposes.

Under the General System of Preference (GSP) of the European Economic Community for all items covered under the scheme, a certificate of origin signed by the Export Inspection Agency is required to be submitted to the customs authorities as also to the negotiating bank alongwith other documents.

Consular Invoice

A consular invoice made out on a specially printed form contains detailed particulars, such as description, quantity, grade and value of the merchandise shipped. It is certified by the consulate of the importing country situated in the exporting country for which a certification fee is charged. It also contains a declaration of the shipper as to the true value of the goods covered. The consular advice enables the custom authorities of the importing country to levy advoloram custom duty on the goods and helps in maintaining proper record of the imports for general statistical purposes.

Shipment Advice

Depending upon the terms of sale on a specific stipulation in the contract, and immediately after shipping the goods the exporter has to inform the foreign buyer of the fact of shipment. This is usually done in the form of a 'shipment advice' giving invoice number, description of goods, quantity, number of packages, marks and numbers, name of the carrier, bill of lading/airway bill number and date, expected time of arrival of the carrier at the port of destination, etc. This enables the foreign buyer to arrange insurance coverage in respect of goods in transit and also for making advance arrangements for the clearance of the goods at the port of destination.

GR/PP/VPP/COD Forms

These forms are submitted to the customs authorities in compliance of exchange control regulations. According to sections 18 of the Foreign Exchange Regulations Act 1973 and para 11.B.1 of Exchange Control Manual 1987 (Edition) all exporters other than those exporting to Nepal and Bhutan are required to submit a declaration in the prescribed form duly supported by such evidence as may be prescribed or so specified and true in all material particulars which, among others, shall include the amount representing-

1) the full export value of the goods; or

2) if the full export value of the goods is not ascertainable at the time of export, the value which the exporter, having regard to the prevailing market conditions, expects to receive on the sale of goods in the overseas markets, and affirms in the said declaration that the full export value of the goods (whether ascertainable at the time of export or not) has been, or will within the prescribed period be, paid in the prescribed manner.

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These forms are:

a) GR : for all shipments (excepting by post)

b) PP : for exports by post parcel

c) VPP/COD : for collection of proceeds through post office

The form needs to be submitted in duplicate – the original copy is meant for the customs authorities and the duplicate is lodged with an authorised dealer along with other documents for realisation of export proceeds from the foreign buyer. Copy which is retained by the custom authorities is sent to the Exchange Control Department of the Reserve Bank of India, the duplicate is submitted to the authorised dealer, is also sent to the Reserve Bank after the documents are negotiated.

AR4 and AR4A Form

Rule 12 of the Central Excise Rules formulated in terms of basic provisions of section 37 of the Central Excise and Salt Act 1944 provides for refund of central excise duty paid in respect of export product cleared from the factory under AR4/AR4A formalities. Rules 13 and 14 provide for export excisable goods without payment of central excise duty under the system known as export under bond. Rule 13 provides for export under bond in respect of single export transaction, where as Rule 14 provides for export under bond on a continuing basis.

To avail these facilities , AR4/AR4A * (5copies) have to be duly filled in by the exporter specifying the details about the shipment, port of shipment, the amount of duty applicable, the fact that the duty has been paid or there is enough credit balance in the running account have to be submitted to the Range Superintendent. The original and duplicate copies of AR4/AR4A forms are handed over to the exporter; the triplicate copy is sent to Maritime Central Excise Collectorate – Refund Section, having jurisdiction over the port where from the goods are to be shipped; the fourth copy is sent to the Chief Accounts Officer of the Maritime Excise Collectorate concerned; the fifth copy is retained with the Range Superintendent for his record and future reference. The original and duplicate copies are to be submitted to Export Deptt. of Customs House along with other shipping documents to prove that formal central excise clearance has been obtained. After the goods have been loaded and the Mate Receipt obtained, these copies are submitted to preventive Officer incharge of the ship for necessary certification. After endorsement, the original copy is retained by the preventive Deptt. and the duplicate one is handed over to the exporter. The original copy is subseqently collected by the Maritime Central Excise Collectorate. Exporter gets refund or release from the bond by submitting the duplicate copy of the Refund Section of Maritime Central Excise.

As vast majority of manufactured goods are subject to central excise, AR4/AR4A form becomes an important document in an export transaction.

GPI & GPII Form

While submitting the AR4/AR4A form, export is required to submit GP (Gate Pass) form in triplicate, a form specifying the amount of duty paid in respect of goods to be cleared from the factory. Where

*In cases where the goods meant for export are to be examined and sealed by the central excise officer before their clearance from the factory AR4 form is prepared. In other cases AR4A form is to be used the goods are being exported under bond, GP2, specifying the fact that there is enough credit balance in the account of exporter, is submitted. GPI/GPII form is prepared in triplicate. The original is submitted to jurisdictional authorities along with the AR4/AR4A form, which is returned to the exporter duly stamped. This copy is sent along with the cargo. The second copy is retained by the exporter and submitted again to jurisdictional authorities along with the monthly return The third copy is retained by the exporter for his future reference and records .

Shipping Bill

Shipping Bill is the principal document required by the customs authorities .It contains description of export goods and other particulars like number and description of package, marks and number , quantity and value as defined in the Sea Customs Act , Indian or foreign merchandise, name of the vessel in which goods are to be shipped, country of destination, etc. It is only after the Shipping Bill is stamped by the customs that cargo is allowed to be carted to Port sheds and Docks .It is used for export by sea or air on even for transportation from one port to another within the country.

There are separate forms of shipping bill for free goods, goods on which export duty is payable and goods for which there is a claim for drawback of duty.

8.5 AUXILIARY DOCUMENTS

Shipping Instruction Form

It is used to send shipping instructions to the shipping company or the shipping agent regarding shipment of export cargo. This facilitates the preparation of bill of lading and other documents by the shipping agent . Also known as Cargo Declaration Form, it usually contains information about country of origin, marks on cases, number of packages, name and address of the consignee, exporter's name and address, invoice value, steamer freight payable etc.

Application for Export Inspection

For obtaining the certificate as required under the provisions of Export (Quality Cantrol and Inspection) Act, 1963, the exporter has to submit an application in the prescribed form (in duplicate) submitting the original to Export Inspection Agency and duplicate to the Export Inspection Council, seven days in advance of the expected date of shipment. The application form contains details of shipment including technical requirement including specification as stipulated in the export contract.

Upon receipt of the application, the goods are inspected and certificate issued, if found in order .

Shipping Order

For booking space, the exporter has to apply to the shipping company either directly or through a frieght broker. If the space is available, the shipping company will issue to the broker/shipper a document called a shipping order, instructing the Commanding Officer of the ship that the goods from the shipper concerned as per details given should be received on board the vessel. The original is given to the shipper and duplicate is sent to the Commanding Officer of the ship.

Mate Receipt

When the cargo is loaded on the ship, the Commanding Officer of the ship will issue a receipt called the 'Mate Receipt'. This includes information about the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo, at the time of receipt on board the ship etc. The mate receipt is first handed over to the port authorities for payment of port dues and then to the shipping company for obtaining the Bill of Lading.

Dock Challan

Also known as port Trust copy of the shipping bill in Bombay and Export Application Form in ports other than Calcutta, Dock Challan is a document prescribed by the port authorities. When the cargo is brought at the dock gate, the shipper has to submit this document along with the Vehicle Ticket (In duplicate) to the Gate Inspector. At the gate, documents are checked to ensure that only goods duly passed by Customs are brought to the docks for shipment.

Activity 3

Which documents can be used by the exporter to finance the goods in transit?

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8.6 DOCUMENTS IN IMPORT TRADE

Bill of Entry

Bill of Entry is the only document which an importer has to prepare and submit to the custom authorities. It contains a complete declaration of the required particulars of imports like quantity, description and CIF value of the goods. Along with the bill of entry, a number of documents such as supplier's invoice, packing list, bill of lading, import license/customs clearance permit, purchase order and indent acceptance etc. are submitted. Bill of Entry is noted and a Serial Number given by the customs along with the date. The scrutiny of documents including scrutiny of Import License, classification of goods and the assessment, calculation and collection of duty is completed on the strength of the declaration made in the Bill of Entry supported by documents mentioned above. In case physial examination does not disclose any discrepancy, the goods can be straightaway cleared.

8.7 EXPORT DOCUMENTATION AND PROCEDURES - STEP BY STEP

Exporting involves 18 steps as detailed below:

I) The first step is to examine the export contract and/or the letter of credit to ensure that the terms and conditions stipulated in these documents are in accordance with those originally proposed, and/or the amendments subsequently agreed to, by the exporter. On receipt of these documents, the exporter writes to the importer acknowledging these documents and, where necessary, drawing attention of importer to the discrepancies in the terms of conditions of contract/ letter to credit.

II) **Instructions to Factory/Supplier:** If the above mentioned documents are in order, a Delivery Note (in duplicate) containing the specifications and other details of the order is sent to the factory for the manufacture and despatch of export cargo to the port of shipment.

III) **Preshipment Inspection and Central Excise (Clearance)**: As soon as the goods are ready for despatch, the factory office arranges to complete the following formalities:

1) Make out an application to the export inspection agency for conducting preshipment and quality control inspection. The Export Inspection Agency will depute an inspector to inspect the consignment and issue the certificate of inspection if the goods conform to the prescribed specifications.

2) Secure clearance of export consignment under Bond* from Excise Authorities. For this purpose, AR-4A form in quintuplicate and a Gate pass (form GP-2 in triplicate) is prepared and presented to the C.E,.Range superintendent who after verification that adequate credit is available in the Bond A/c signs all the five copies of the AR-4A form. He gives back the original copy of the Gate pass to the exporter and sends the triplicate copy of AR-4A form to the Maritime Collector of C.E., at the port of shipment. The fourth copy of AR-4A form is sent to Chief Accounts Officer and the fifth copy is retained by him for his record.

3) Despatch of consignment to the port of shipment by rail and obtaining Railway Receipt or by road and obtaining Lorry-way bill.

iv) **Despatch of Documents to the Export Department of the Firm By the Factory Office:** The factory office prepares a'Despatch Advice 'and sends it to the Export Department along with follwing documents.

1) Railway Receipt/Lorry-way-bill
2) AR 4A form (original and duplicate copies)
3) Excise Gate pass (Original)
4) Duplicate copy of Delivery Note duly signed by factory office. It states that the consignment has been sent to the port town.
5) Certificate of Inspection.

*Under the procedure for export under bond, manufacturer-exporter enters into a bond under such conditions as the Collector of Central Excise approves for a sum at least equal to the duty chargeable on the goods. At the times of removing the export goods from the factory, a debit entry for excise duty for excise duty is made in the Bond A/c which is duly discharhed after the goods have been exported. An alternative to this procedure is to pay the C.E. duty at the time of removing the export consignment from factory and after exportation of the goods file a claim for rebate of duty with the collector of Central Excise. Here the Gate pass (Form GP-I)is prepared.

v) **Arranging Insurance Coverage:** On receipt of these documents the Export Deportment makes an application to the Insurance Company for marine insurance cover and requests them to issue an insurance policy/certificate in duplicate with appropriate risk coverage.

vi) **Instructions to Forwarding Agent:** At the same time, Export Department prepares a note for the forwarding agent at the port of shipment giving detailed instructions regarding the shipment of the consignment. The exporter must also give the details of the vessel on which space has been booked for shipment of the cargo. This note is sent to the forwarding agent along with the follwing documents:

1) AR-4A Form (original and duplicate copies)
2) Excise Gate pass (Original)
3) Commercial Invoice (Adequate number of copies – generally 8/10)
4) Packing List (one copy)
5) GR Form, (Original & Duplicate)
6) Customs – Invoice (where required in the importing country)
7) Original Letter of Credit/Contract
8) Declaration* Form in triplicate
9) Quality Control Certificate (O)
10) Purchase Memo
11) Railway Receipt/Lorry –way bill

vii) **Port, Shipping and Customs Formalities:** On the doucments, the Forwarding Agent takes delivery of the consignment from the Railway Station or from the road transport at the road transport at the port of shipment and arranges its storage in the warehouse.

viii) He also initiates action to obtain customs clearance. For this purpose the Forwarding Agent prepares four /five copies of the relevant 'Shipping Bill** and presents it along with the above mentioned documents *** to the Export Department of the Customs House. The Customs Appraiser examines these documents and appraises the value having regard to the following considerations:

1) That the value and the quantity declared in the shipping bill is the same as in the export order/ letter of credit.

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* It is declaration by the exporter stating that the value, specifications, quality and description of the goods being exported as mentioned in the shipping bill are in accordance with the terms of the export contract and that the statements made in the Shipping Bill are true.

** The Shipping Bill may be a Shipping Bill for (I) Duty Free Goods or (ii) Dutiable Goods, or (iii) Goods under Claim for Duty Drawback.

*** All the documents listed at 1-11under step vi.

2) That the formalities regarding exchange control, preshipment quality control inspection etc. have been duly completed. After examination of documents and appraisement of value, the Customs Examiner/Appraiser makes an endorsement on the duplicate copy of the shipping bill giving direction to the Dock Appraiser about the extent of physical examination of the cargo to be conducted at the Docks. All the Documents, except GP(O) Form, the original Shipping bill and a copy of the Commercial Invoice are returned to the Forwarding Agent to be presented to the Dock Appraiser.

ix) After taking delivery of documents from the Export Department the Forwarding Agents presents the Port Trust Document* to the Shed Superintendent of the Port and obtains carting order for bringing the export cargo to the transit shed for physical examination by the Dock Appraiser. He then presents the following documents to the Dock Appraiser for conducting physical examination of the cargo.

1) Duplicate, triplicate and export promotion copies of the Shipping Bill.
2) Commercial Invoice.
3) Packing List
4) AR- 4A From – original and duplicate copies and gate pass
5) Inspection Certificate (O)
6) GR- Duplicate

The Dock Appraiser after conducting physical examination records examination report and makes "Let Export endorsement" on the duplicate copy of the Shipping Bill and hands it over to the Forwarding Agent along with all other documents to be presented to the preventive Officer of the Customs Department who supervises the loading of the cargo on Board the vessel.

x) The Preventive Officer makes an endorsement "Let Ship" on the duplicate copy of the Shipping Bill. The duplicate copy of the Shipping Bill is then handed over to the agent of the shipping company. This constitutes an authorisation by the Customs to the shipping company to accept the cargo on board and vessel.

xi) After the goods on board the vessel the Captain of the ship issues a receipt known as the "Mate's Receipt " to the Shed Superintendent of the port.

The Forwarding Agent then makes a payment of the port charges ** and takes delivery of the Mate's Receipt. He presents the Mated Receipt first to the Preventive Officer who records the Certificate of Shipment on all the copies of Shipping Bill, original and duplicate copies of AR-4A form and returns the Export Promotion copy, a copy of Drawback Shipping Bill and duplicate AR-4A to the Forwarding Agent. The latter then presents then presents the Mate's Receipt to the Shipping Company and requests it to issue the Bill of Lading (2/3 negotiable and a few non- negotiable copies as required).

* Port Trust copy of Shipping Bill at Bombay; Dock Challan at Calcutta and Export Application at other ports.

** At all ports in India export at the port of Bombay, port charges are required to the paid before carting of goods to the docks.

xii) **Despatch of Documents by Forwarding Agent to the Exporter;** After obtaining the Bill of Lading from the Shipping Company the Forwarding Agent sends the following documents to the exporter:

1) One copy of the commercial invoice duly attested by the Customs
2) Export Promotion copy of the Shipping Bill
3) Drawback copy of the Shipping Bill
4) Full set of 'clean on-board bill of lading' together with a few non-negotiable copies
5) Original letter of credit/contract order
6) Copies of Customs Invoice
7) AR-4A form (duplicate) and Gate Pass
8) GR Form (Duplicate)

xiii) **Certificate of Origin:** On receipt of the above documents, the exporter makes an application to the Chamber of Commerce and obtains a 'Certificate of Origin' in duplicate, In case of export shipment to countries offering GSP concessions, the GSP Certificate of Origin will have to be procured by the exporter from the concerned authority like Export Inspection Agency or others.

xiv) **Shipment Advice to Importer:** The exporter then sends 'Shipment Advice' to the importer intimating the date of shipment of the consignment by a named vessel and its expected time of arrival (ETA) at the destination port. The following documents are also sent along with the shipment advice so that the importer may start making arrangements for taking delivery of the consignment:

1) A non-negotiable copy of the Bill of Lading
2) Commercial Invoice
3) Packing List
4) Customs Invoice

xv) **Presentation of Documents to Bank:** The exporter presents the following documents to the bank for negotiation/collection:

1) Commercial Invoice – (with requisite number of copies)
2) Certificate of Origin – two copies
3) Customs Invoice – (with requisite number of copies)
4) GR Form (Duplicate)
5) Packing List- (with requisite number of copies)
6) Full set of Clean-on-board Bill of Lading negotiable plus non-negotiable copies as required.
7) Original Letter of Credit/Export Contract
8) Additional copies of the Commercial Invoice for Certification by the Bank
9) Bank Certificate in the prescribed form in duplicate
10) Marine Insurance Policy/Certificate
11) Bill of Exchange
12) Quality Control/Preshipment Inspection Certificate

xvi) At the Bank, these documents are processed in the following manner.

1) The documents are examined with reference to the terms and conditions of the original order and also that of the letter of credit.

2) The documents are examined with reference to the bank of the importer by the first air mail followed by the second set of these documents by the second air mail to ensure that in case the first set is lost or delayed, the importer or his bank can take delivery of the consignment on the basis of the second set of documents.

i) Commercial Invoice	ii) Customs Invoice
ii) Packing List	iv) Certificate of Origin
v) Negotiable Bill of Lading	vi) Insurance Policy Certificate
vii) Bill of exchange	viii) GSP Certificate of Origin
ix) Certificate of Inspection	(if necessary)

3) The exporter receives payment against the above documents.

4) Duplicate copy of the GR form is transmitted to the Exchange Control Department of the Reserve Bank of India on receipt of payment from abroad.

5) The original copy of the Bank Certificate as applied for by the Exporter along with attested copies of the Commercial Invoice are returned to the exporter.

6) The duplicate copy of the Bank Certificate is sent to the J.C.C.I.&E. as indicated by the exporter.

xvii) Rebate of Central Excise Duty & Duty Drawback:

Simultaneously, the exporter files a claim with the Maritime Collector of Central Excise, for rebate of Central excise duty or for getting credit in his Bond Account and also for duty drawback in accordance with the procedure laid down in this regard.

xviii) Export Benefits: The exporter initiates action for claiming benefits against exports made by him as per the procedure outlined under the policy for Registered Exporters.

Activity 4

Visit an exporter and find out the time taken by an exporter to move a single consignment. What is the implication of this variable on working capital management?

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8.8 SIMPLIFIED EXPORT DOCUMENTS

For many years exporters have complained about the amount of paper work involved in export transactions. Hence, in a number of countries, advanced countries in particular, steps have been taken in the direction of rationalization of procedures and use of standardised documents. The use of standardised documents based on what has come to be known as "ECE Lay Out Key" is reported to have brought considerable savings in export documentation costs to the exporters in advanced countries.

The system works on the principle of having a set of alignment forms, which means an exporter need only compile one master document, as he can then use the information for each separate form as required by means of a copying machine. The master document has been designed on A4 size, and most of the export documents can be inciuded in the assigned series.

In India, the need for simplification of export procedures and documents has been felt for a long time. However, concentrated efforts in this field began in 1969 when at the instance of Ministry of Commerce, the Indian Institute of Foreign Trade made a comprehensive study of India's export procedures and documentation. The report was brought out in 1970. Follow up action has taken place with respect to many of the recommendations made in the report. Work relating to standardising export documents has also been initiated. A simplified standard document which would meet the requirements of all the concerned organizations and departments is being evolved.

8.9 SOME USEFUL TIPS

A common complaint made by the bankers is documents submitted by exporters are often either incomplete or incorrect. This leads to delays, or even refusal of payment.

To avoid, these delays, it is necessary to be very careful about documentation, particularly in case of letter of credit. While exporting under letter of credit arrangements, immediately on receipt, read and re-read the letter of credit very carefully and check the terms against the contract of sale. It is necessary to check that the letter of credit-

- is of the type agreed e.g. irrevocable and confirmed or just irrevocable
- has an expiry date that is sufficiently far ahead for the goods to be shipped and the required documents obtained and presented in time
- has terms and conditions that can be met and that the required documents can be obtained exactly as called for.

If any amendment or extension is necessary the buyer should be asked immediately to instruct the issuing bank accordingly. A watch should be kept to see that the advice of amendment of the credit is received without delay.

In regard to documentation under letter of credit it is necessary that all the documetns are prepared with great care. It should be remembered the letter of credit is the bank's mandate to pay. The bank has no discretion. It is not allowed to aprove errors and/or inconsistencies of whatever nature and however small is the documents presented to it and will not pay in such circumstances.

Even where the goods are exported on D/P or D/A terms, documentation should be correct and every care should be taken to ensure that there are no mistakes. The following points should be kept in view.

In regard to commercial invoice, it should be ensured that the document is properly signed, dated and all the necessary information pertaining to goods and terms of payment. Description of goods must tally with what is given in the contract to avoid any confusion at the buyer's end.

In regard to Bill of lading, the exporters should ensure that it is a clean, on board bill of lading and should clearly evidence whether freight has been paid or not. Unless agreed clearly in advance, it should not be a charter party but on board bill of lading.

In regard to insurance documents, exporters should ensure that the policy/certificate should clearly indicate the type and extent of coverage or risks as per contract. In case the contract is silent, exporters should ensure that coverage is quite comprehensive to cover all types of risks and is effective from the date of shipment/despatch.

In regard to other documents inspection certificate, certificate of origin etc. exporters should ensure that they are in conformity with the laws in the importing countries.

In documentation relating government rules and regulations pertaining to exports, i.e. GR/PP form, AR4/AR4A. Shipping Bill etc. exporters should ensure that all information should be absolutely correct. Inadequate or incorrect information may result in delay in shipment or even penal action against the exporter.

8.10 SUMMARY

Documentation and procedures, though complex and cumbersome are an integral part of international marketing operations. They are needed in compliance with either the requirements of contract concluded between exporters and importers, or the requirements of exporting or importing countries.

In a typical transaction, contract requires the exporters to send a copy/copies of each of the following documents:

i) Invoice
ii) Packing List
iii) Insurance Policy/Certificate
iv) Bill of exchange
v) Bill of lading/Airway Bill/Combined transport documents
vi) Export Inspection Certificate
vii) Certificate of Origin
viii) Shipment, Advice

Commercial invoice is a document of content giving details of the goods, shipped along with price and other charges/expenses etc. incurred on buyer's account. Packing list gives details of contents in individual packets/cases. Marine Insurance Policy/Certificate gives details of the insurance cover e.g. type of risks covered, extent of coverage etc. Bill of exchange is an instrument through which the drawer of the instrument i.e. the exporter calls upon the drawee i.e. importer to pay the net amount payable under the contract either to the exporter or a party named thereunder. The exporter can pass on this bill to his bank either to get paid, if drawn at sight, or accepted, in case of a usance bill. Then, the transport documents providing evidence of shipment, bill of lading in case of shipments by ocean transport, airway bill in case of shipment by air and Combined Transport Documents, where more than one kind of transport is involved, are submitted to the bank.

Export Inspection Certificate, usually a requirement of the importer, is also needed in compliance with Export (Quality Control and Inspection Act, 1963). It is an evidence to the effect that the goods have been inspected as per requirement of the contract/government regulations. Certificate of origin certifying that the goods have been produced/manufactured in the exporter's country is usually a requirement of the Government in the importing country. So in the case of Consular Invoices- which is an invoice made in a format prescribed by the importing country. Shipment Advice is intended to inform the buyer that the goods have been shipped. Details regarding the date of shipment and mode of transport are also given to enable him to get ready to receive the shipment. GR/PP/VPP/COD forms contains declaration regarding exports and a undertaking for realising the export proceedings within the stipulated time period, as per requirement of the port Authority. While GP is required for all exports other than postal exports, PP form has to be submitted where the goods are sent through Post Office. Where the sale proceeds are also desired through post offices, VPP/COD form is needed.

AR4/AR4A and GP I/GP II are the forms in persuance of the requirements of central excise act. Goods sold abroad are exempted for payment of central excise duty. These forms enable the exporter to claim refund of duty or get their cargo exempted from payment against a bond.

Shipping Bill, a requirement of the Customs Act is an important document which is in nature of an application submitted to Customs Authority seeking their permission to export.

Among the auxiliary documents, Shipping Instruction Form is used for giving instructions to the C&F Agent/Shipping Company. Application for Export Inspection is submitted to the concerned Export Inspection Agency. Shipping Order Issued by the Shipping Company asking the Commanding Officer of the ship to accept the goods from the named shipper. Mate's Receipt is issued by the Commanding Officer of the ship to the shipper indicating that the goods have been loaded abroad the ship.

Export Procedures & Documentation – Step by Step

Export Documentation and Procedures involves 18 steps;

First step: Exporter examines export order / letter.

Second step: Exporter places order with the factory or supplier in case of merchant exporters.

Third step: Factory/Supplier makes arrangements for preship inspection and central excise clearance.

Fourth step: Factory arranges despatch of Railway Receipt/Lorry Challan, AR4/AR4A, GP I /GP II, inspection certificate, packing list etc. to Exporter Department.

Fifth step: Insurance cover is arranged.

Sixth step: Documents (Commercial Invoice in particular) are prepared in Export Deptt. and despatched to C&F Agent along with shipping instructions.

Seventh step: C&F Agent takes delivery of goods for storage in a warehouse.

Eighth step: C&F Agent brings the documents for clearance by the Export Department of the Customs.

Ninth step: After the documents are cleared goods are brought for physical examination. The Dock Appraiser records examination report, makes 'Let Export endorsement on the duplicate copy of Shipping Bill and hands over the same to the C&F Agent to be presented to preventive Officer supervising the loading of the cargo aboard.

Tenth step: Preventive Officer makes the endorsement 'let ship'. Thereafter, shipping Bill is handed over to the Agent of the shipping company.

Eleventh step: Goods are loaded and captain of the ship issues Mate's Receipt to the Shed Superintendent. C&F agent pays part charges and takes delivery of the Mate's Receipt, which is exchanged with Bill of Loading.

Twelth step: C&F Agent forwards all the documents to the exporter.

Thirteenth step: The exporter takes necessary steps for obtaining Certificate of Origin.

Fourteenth step: Shipment Advice is sent to Exporter.

Fifteenth step: Export Documents are presented to Bank for negotiation.

Sixteenth step: Export documents are scrutinized, and if found in order are negotiated or sent for collection. Exporter receives payment, if documents are negotiated and Bank Certificate issued to him.

Seventeenth step: Exporter claims rebate of central excise and duty drawback.

Eighteenth step: Exporter initiates action for claiming export benefits.

As consequences of non- compliance of requirements inadequate documentation can cause delay in payments or even penal action, exporters are advised to take the documentation seriously and exercise all possible care.

8.11 SELF-ASSESSMENT QUESTIONS

1) Contact any exporter/importer in your vicinity and see for your self the various documents which have to be submitted to different authorities. With his help, write out the various steps involved in executing a specific order. If possible, you may also contact a bank, if there is one with authorisation to deal in foreign currencies.

2) Why are the documents needed? Discuss the role of following documents and explain their significance from the importers' viewpoint.
   a) Commercial Invoice
   b) Packing List
   c) Insurance Policy/certificate
   d) Bill of Exchange
   e) GR Form

3) What are the different parties in a letter of credit ? Explain the step by step procedure of realising export proceeds.

4) Discuss the role of banks in export transactions. Name the documents needed by them for realising export proceeds from the foreign buyers.

8.12 FURTHER READINGS

Uniform Customs and Practice for Documentary Credit (1983 Revision). International Chamber of Commerce Publication No.400.

Booklet on Export Procedures and Documentation – prepared for Export Executives Orientation Work shop. Reserve Bank of India, Bombay (1985). Reprinted by Canara Bank and sevaral other nationalized banks.

A Handbook of Export Import *procedures and Documentation*. Government of India, Publication Division.

BLOCK 4

INTERNATIONAL MARKETING MIX

This block consists of four units on elements of the international marketing mix. An array of external and internal variables influence like firms product offering to the international market place. Unit 9 discusses how the international marketer adjusts his offering to the unique needs of each of the markets it chooses to enter. Effective marketing communication is particularly important in international marketing because of the geographical and psychological distances that separate a firm from its intermediaries and customers. Unit 10 on international advertising focuses on the principles of marketing communications in international markets. It also provides a scenario of international advertising through strategic relating to international advertising agencies.

Unit 11 focuses on international pricing decisions the setting of export price, terms of sale and terms of payment. Channels of distribution provide essential linkages that connect producers and customers. The links are intracompany and extracompany entities that perform a number of functions. Unit 12 discusses how an international marketer can form an optimal distribution system in terms of design and choice of individual intermediaries. The decisions involved in the management of channels and the physical distribution function have also been discussed.

UNIT 9
INTERNATIONAL PRODUCT POLICY AND PLANNING

Objectives:

After studying this unit you should be able to:

- explain the importance of international product life cycle
- discuss the product policy options available to international marketer
- explain the factors that influence branding, labelling and packaging planning, and
- describe the emerging role of international marketing of services.

Structure

9.1 Introduction

9.2 International Production Policy

9.3 International Product Policy

9.4 Planning the International Product Mix

9.5 Branding, Labelling , Packaging and Organisation of Product Warranties and Service

9.6 International Marketing of Services

9.7 Summary

9.8 Self- assessment Questions

9.9 Further Readings

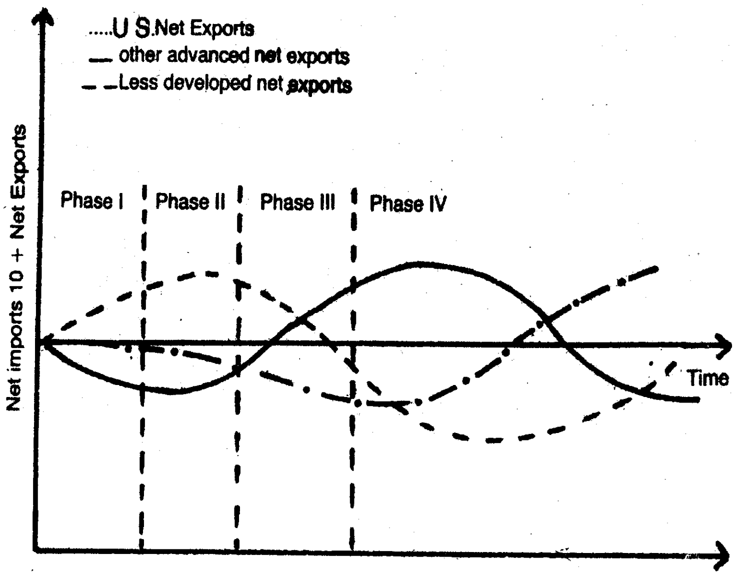
9.1 INTRODUCTION

One of the fundamental decisions for successful international marketing relates to product policy and planning. An international marketer has the option of exporting the home market product to foreign markets, adapting the home market product to meet the needs of the foreign customers more closely, or developing new products meet the specific needs of the customers in foreign markets. The selection process needs a careful analysis of the foreign market needs, appraisal of the market opportunity and detailed product planning. The important aspects of international product planning which are discussed below, include: international product life cycle, standardisation vs. adaptation of products, new product development, consistency of product lines, width and depth of product-mix, branding, labelling, packaging and organisation of product warranties and services

9.2 INTERNATIONAL PRODUCT LIFE-CYCLE

The theory of international product life-cycle(IPLC) makes a significant contribution of formulation of effective international product policy and plans. The theory postulates a four-phase cycle for most products. In the first phase U.S. exports dominate the world market, while in the next three producers from other developed countries become increasingly competitive, first in their markets, then in less-developed country markets and finally in the U.S. market. The cycle may be repeated by successive challenges from producers in less-developed countries. A schematic representation of net exports over the IPLC is given in Figure 1.

Fig. 1. Net Exports of Nations, and Phase over IPLC



Source: Igal Ayal, International Product Life-Cycle: A Reassessment and Product Policy Implications, Journal of Marketing, Fall 1981.

In simple words, the theory of IPLC brings out that advanced (initiating) countries play the innovative role in new product development. Later for reasons of comparative advantage or factor endowments and costs, such a product moves over to other developed countries and ultimately gets produced and exported by less-developed countries. Not surprisingly, therefore, that countries such as Taiwan, Hong Kong, Korea, Singapore and even India have emerged as major exporters of growing range of products to USA and Western Europe during the last decade and a half.

The general pattern of a typical IPLC may be put as under:

Innovating Country: Stage	Other Developed Countries	Less-Developed Countries
Production Exports Imports	Early Imports Production Exports (Large volume declining to small volume)	Late Imports Production Exports (Small volume rising to large volume)

The IPLC theory presents the following implications for international product planners:

- Innovative products carry significant export potential;
- The marketer whose products face declining sales in one foreign market may find another foreign market with encouraging demand for his product; and
- Innovative products improve the staying power of the international firm.

9.3 INTERNATIONAL PRODUCT POLICY

A firm's product policy reflects its marketing orientation. Following the framework of IPLC, a firm may begin exporting the products it sells in the domestic market. Alternatively, it may recognise the significant differences in customer needs, conditions of product use, etc., and may plan for exporting different products or product versions to meet the specific needs of each of its different global market segments. In the latter case, the exporting firms would thus offer a large product mix.

The other option available to exporting firms is to develop a new product for the export markets. This new product may be the result of the firm's own R&D acquisition or joint venture with a business partner in the host country. Interesting examples, here, include Coca-Cola Corporation which having entered Japan in 1958 had added Fanta and Sprite by 1970 and still later introduced fruit drink products, carbonated orange fruit drinks and also potato chips which were not even sold by the company in its US Market. Similarly, IBM developed EPABX within the UK, Broke Bond essentially a tea company elsewhere, markets coffee and spices in India.

Given the relative merits and demerits of each of the available options, the basic question on international product policy relates to whether the exporting firm should standardise adapt or develop an altogether new product for the export market.

Standardisation vs. Adaptation

The advantages of economies of scale; savings on common costs of R&D, product and package design; and universal image make a strong case for product standardisation across different export markets. The reality of the export markets is, however, not so easy to harness. Factors such as the following and their implications influence the exporting firm's decision in favour of product adaptations and in extreme cases ever for new product development. These factors and their implications on product design are as under:

Factor	Implications for Product Design
Customer Orientation (purchasing power, habit preferences, socio-cultural characteristics, literacy and education levels)	Product range, size, brand name/ mark, labels, package colour and use instructions
Stage of Market Development (availability of infrastructure support facilities, level of technical skills and maintenance)	Product form, packing, product simplification, change in tolerances, service after-sales.

Legal Consideration (patent, safety standards commercial terms, control requirements)	Brand name/mark, label, language, measurement units and sizes, instruction, and packaging.
Climatic Condition and Physical Environment (hot, cold climate, plains, hilly areas, living environment in home etc.)	Packaging protections, package size, product storage.

While the listed factors explain the scene of global product adaptation, the extent of product adaptation is governed by cost-benefit accruing to the exporting firm, the state of competitors in the host country market, and also the nature of the product mere adaptation is needed in consumer non-durable goods for reason of varying tastes and preferences of consumer, than in durables and industrial goods. Some illustrations of product adaptations are as follows:

- McDonald's sell cheese burgers in Australia to one segment of market as a low-calorie diet food.
- For want of refrigeration facilities Lever Brothers introduced dehydrated vegetables in India, Pakistan, Thailand and South Korea in place of frozen vegetables marketed by it in developed countries.
- Compbell Soup, company modified its soup ingredients in Britain to cater to local tastes.
- Agarbathi exporters from South India modified the intensity and type of perfume in incense sticks to suit the liking of Middle East and North American customers.
- Electrical system of 220-volt for European market and 110-volt for North America.
- In Oman, the law requires tobacco manufacturers to print the legend "smoking is a major cause of cancer, lung disease and diseases of the heart and arteries, "on both the package as well as on all tobacco products.
- Nicaragua, Iraq, Thailand and Saudi Arabia require dual-language brand names, labelling and usage instructions.
- Coca-Cola Corporation did not use its brand name in China as Chinese translation of "Coca-Cola" means phonetically "bite the wax tadpole". Instead, it chose an ideomatic brand name meaning "pleasure in the mount".

J.D. Singh in his pilot study on export marketing practices of successful Canadian exporters found that one of the significant factors that contributed to their award winning performance was their ability to innovate and constantly adapt and undate their products to the customer needs. This was the case with **Positron** (innovations in telecom products); **IMAX** (adapting Omni-systems to country/users needs); **Allsteel** (wide range of products to meet diverse needs of country/customers); **Interbake** (adaptations in taste and flavours biscuits and sweets); **Phantom** (innovations in style and designs in swimwear, beachwear and bodywear) to quote a few corporations practices.

New Product Development

Attractive market opportunities and /or competitive pressures prevailing in the market may invite the exporters to develop new products for the host country markets. Such a new product could be developed internally in the exporter's own R&D set up, by acquisition or be the result of joint venture with another organisation.

While the process of new product development for global markets is similar to that for the domestic market, greater emphasis is needed on legal requirements, customs and habits market research and test market aspects of the process in the target market. Owing to substantial environmental differences across different countries, new product development and marketing in foreign markets is a high risk area and hence needs systematic planning and management.

Activity:

Please tick the most appropriate answer:

1) Product design strategies include:

a) customisation

b) optimisation

c) standardisation

d) both a and c

2) Not being able to market your frozen foods in a country because the retailers do not have facilities with deep freezers is an example of a product development problem arising from:

a) competition

b) physical environment

c) support system

d) legal environment

3) Management of a product line must take into consideration:

a) market segmentation

b) product design

c) product quality

d) all of the above

4) The design to add a product to the line is influenced by such considerations as:

a) compatibility

b) finance

c) organisation

d) all of the above

5) The need to rewire the electrical products in the country where the product being introduced does not have a common voltage system; or product simplification when the local level of technology is not high; or the need for a colour change if present colour violates the local taboos, are all examples of :

a) cultural adaptation

b) consequences of innovation adaptation

c) physical adaptation

d) compatibility adaptation

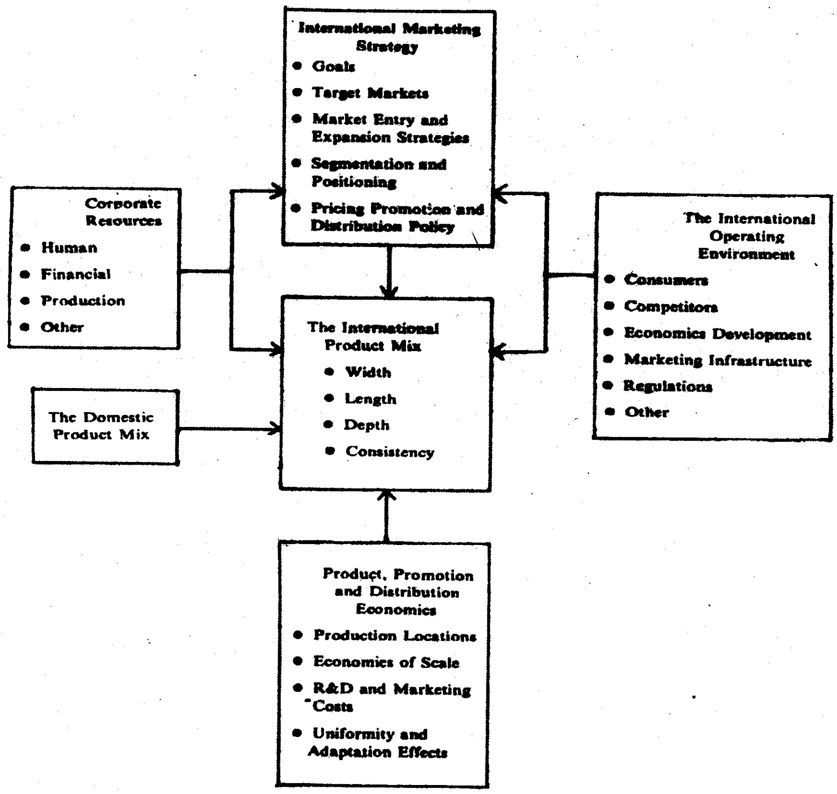
Answers

1) d 2) c 3) d 4) d 5) c.

9.4 PLANNING THE INTERNATIONAL PRODUCT MIX

Emanating out of the international marketing objectives and strategy, the planning of the international product mix requires balancing of and integration with other key determinants which are given in Exhibit 9.2

Exhibit 9.2 International Product Mix Policy: Key Determinants



Source: Brain Toyne and peter G.P. Walters, Global Marketing Management, Allyn and Bacon, 1989,p.450

Basic issues that need thorough analysis and evaluation in product mix planning are the number of product lines to market; width, depth and consistency of each product line with the other; and also the product portfolio analysis. Much like in domestic marketing the international product mix needs periodic and systematic review both for detecting any incompatibility between the products marketed and the customer needs as well as for locating the non-performing products and picking up the weak products for elimination.

9.5 BRANDING, LABELLING PACKAGING AND ORGANISATION OF PRODUCT WARRANTIES AND SERVICES

These four decision areas play a crucial part in international product planning and are brief discussed below.

Branding

The issues that need consideration in branding and trademark decision are:

- Whether to have one brand name world wide (e.g., Coke); or modify the brand name in each market (e.g., Nescafe Instant in India, Nescafe Gold in Germany, and Nescafe Gold Blend in Great Britain); or to have different brand names in different markets;
- Whether to use separate product names as brand names or make use of company name or a combination of the two (e.g., Levi's, Phillips, ICI, Bata, Scotch); and
- Whether to seek legal protection (trade mark) for the brand names and mark of the company.

The selection of a brand name that does neither lose its meaning nor image when translated into diverse languages poses a serious challenge. Although the establishment of international brand names facilitates the marketing of products globally, it also raises issues of brand piracy, imitation and fake brands. It may also be worth noting here that the world bodies are currently pushing hard for greater protection of intellectual property rights on a global basis.

Not with standing the above brand and trademark decisions are affected by the company's product policy on standardisation vs. adaptation, and the legal requirement of the host country.

Labelling

Like in the branding decision, the informational and promotional contents of the product label are influenced as well by the legal requirements as by the exporting firm's product and promotion policy.

While the aspects concerning name of manufacturer, date of manufacture, shelf-life weight, contents, ingredients, price and handling instructions vary with the legal requirements and the international marketing policy of the firm, the language (s) of the host country, and the level of literacy of its people determine the graphics and visuals to be used on the product lable.

Packaging

Physical protection of the product as well as its psychological promotion are the key concerns of packaging.

A 'package' as simple as it may look, is influenced in its design, material, shape and weight by a large number of factors. The important factors being.

- safety and security of the product within the package in terms of temperature limits, barometric pressure, corrodibility , colour retention, vibrations and even the ecological effect of the package in it self.
- transportation hazards, weight and package construction in case of air shipment, and the handling and warehousing needs of the package;
- customer perceptions in terms of shape, size, colour, storage life reusability and aesthetics:
- product promotion in terms of display value of the package shelf-life , package attractiveness as a silent salesperson, brand and lable information and sales promotion aids like coupons, stickers, etc; and
- compliance with legal requirements, and how much does the package cost in the light of the role it performs.

These factors force the exporting firm to keep in touch with innovative packaging materials and be on the look out to make thier packaging cost effective.

Product Warranty and Service

A warranty is a guarantee on the product performance as stipulated by the manufacturer. In other words, it defines the manufacturer's liability in the case of non-performance, or under-performance of the product.

Other than compliance with the legal requirements of the host country, product warranties and service constitute an integral part of the added value of the product offered in international markets. As such, it must be one-up on the competitors.

A warranty without the back up of service facilities is counter productive. Consumer durables and industrial goods require servicing that is both convenient and reliable. Since customer service means enhancing efficiency of the product as well as that of the customer, the formulation of the service policy requires, an assessment of customer expectations and needs, competitive practices, and the quality of servicing infrastructure and network in existence in the host country. Generally speaking, where the host country's service infrastructure has been found to be of satisfactory level, international marketers (such as General Motors and TELCO) have preferred to have tie-ups with local services for provision of services and have supported them with regular supply of spares, manuals, drawings and the training of their personnel. This is one area in which Indian exporters have to improve a lot.

Activity 2

Please tick the most appropriate answer:

1) When introducing a new product for the first time in a foreign market, the marketer should:
   a) consider what the product does to a customer's habits, tastes, and patterns of life
   b) treat the product as a new product
   c) expect some natural resistance to change if the product is "new " to the market
   d) all of the above
   e) none of the above

2) International packaging decisions ought not to take into account the requirements of:
   a) customers
   b) shipping
   c) designers
   d) distributors

3) The decision on warranty design (standardisation vs customisation) is based on:
   a) nature of the market
   b) competition
   c) service ability of the company
   d) all of the above

Activity 2

1) d 2) c 3) d

9.6 INTERNATIONAL MARKETING OF SERVICES

Service as a product has been having the most rapid growth in international marketing in the recent past of particular interest has been the fantastic growth registered by financial and consulting services. Organisations like McKinsey, Price Waterhouse, Kay Associates, Arthur D.Little, Citi Bank, etc. now operate on global basis. A proof of their rapid growth is that today a large number of countries have imposed direct and indirect barriers on foreign companies entry to their domestic markets. To overcome the resulting problems, U.S. Government is attempting to get an agreement through GATT for curtailing restrictive barriers to trade in services.

The important prerequisites for success in international marketing of services include:

- employment of competent professionals

- greater flexibility in market entry and exit almost at a short notice
- networking relationship with other international and leading service organisations in the host country, and
- closer relationships with some of the well-established leading organisations and with dignitaries who matter with the host country government and world development bodies.

The risks associated with international marketing of services are more or less the same as that of products, namely, cancellation of license, expropriation, currency inconvertibility or the customer insolvency. Strong relationships with customers and host country government go a long way in minimising the impact of such risks in global marketing of services.

Given the critical role which the marketer's relationships play. Sharma and Johanson make the following suggestions in evaluating opportunities for international marketing of services:

- Identify and examine the current network of relationships with current and potential clients and other organisations and individuals that could prove useful. Issues of special interest include the genesis, nature and quality of the relationship.
- Evaluate ways in which present network is being and could be used as a platform for generating foreign business. Key questions include: does it provide good information on overseas business opportunities? Does it result in effective project collaboration? Could these contacts be used more effectively to obtain foreign business?
- Devise a strategy for network development to facilitate entry into new overseas markets and to increases business opportunities in current markets.

9.7 SUMMARY

International product policy and planning plays a crucial role in the successful management of international marketing operations. Aimed at seizing the market opportunity, it focuses on the basic decision of whether to export the domestic standardised product or to adapt or even develop a new product for the global markets. Although global marketing of the standardised product is more convenient and profitable, yet customer needs, competitive pressures and legal considerations require the product to be adapted to even the newly developed needs.

Implementation of the product policy requires planning as the width and depth of the product-mix. Branding, packaging and organisation of product warranties and service are the other integral parts of international product policy and planning.

Service as a product now offers a tremendous potential for international marketing Networking with the professional organisations and closer relationships with leading customers and influencers act as the important factors for success in international marketing of services.

9.8 SELF-ASSESSMENT QUESTIONS

1) Discuss the nature, importance and process followed by it a local export firm in planning its international product policy.

2) List the factors that help in the successful management of the international product line.

3) What considerations are involved in the branding and packaging of food products or garments, for the developed country market, and for less-developed country market. Name the countries selected.

9.9 FURTHER READINGS

Subhash C. Jain and Lewis R. Tucker, Jr., *International Marketing*: Managerial Perspectives. Second Edition, Kent, 1986, Chapters 13 and 14.

V.H. Kirpalani. *International Marketing*, Prentice-Hall, India 1987, Chapter 13.

Brian Toyne and Peter G.P. Walters, *Global Marketing Management*, Allyn and Bacon. 1989. Chapters 12 and 13.

UNIT 10

INTERNATIONAL ADVERTISING

Objectives

After going through this unit you should be able to;

- discuss international advertising strategy
- describe the elements of international advertising strategy
- explain the determinants and factors of media
- comment upon the role and functions of advertising agencies in the international context
- get an overview of the international advertising scene

Structure

10.1 INTRODUCTION

Most people must be motivated to want a product before they buy it. Advertising is an important motivator in marketing. The primary role of advertising is to inform, educate, to motivate and to persuade people to buy a product, a brand or a service. Advertising must also be to overcome people's resistance and inertia to change and counter competitive claims to draw consumer's attention to the advertiser's products. Once consumers are won, they must be held and made loyal to the advertiser's products. Advertising thus plays two basic roles in marketing: (a) attract potential customers towards the product and (b) help hold them as loyal customers to the product.

In addition to the two top objectives of advertising-to draw in new customers and to help hold old ones as repeat purchasers of advertiser's product- advertising also plays other important roles in marketing such as

- Advertising identifies a business with goods or service it offers.
- Advertising can build up confidence in a business.
- Advertising can create image and good will.
- Advertising can increase sales and increase turnover.

However, advertising is not the only answer to all marketing problems. There are several things which advertising cannot do.

Some of these are;

- Advertising cannot help a business prosper if that business offers products of poor quality compared with competitive products. Good advertising may be able to sell a poor product once but not repeatedly.
- Advertising cannot lead to sales if the prospects which it brings in are not properly treated or attended to.
- Advertising cannot create sustained sales overnight. It needs to be repeated for impact and reinforcement.
- Untruthful or misleading advertising does not help build much-needed credibility and confidence in the product or the company.

These basic functions of advertising in marketing are relevant maybe in different degrees-whether these are applied in the domestic market or in the foreign markets. The principles of advertising are universally applicable. However, the diversity of environmental conditions obtaining in different countries create problems of planning and implementation of advertising nationally and internationally.

10.2 INTERNATIONAL ADVERTISING STRATEGY

Advertising is a crucial element in the integrated foreign marketing plan, but its role in specific marketing programme varies from time to time, market to market and company to company depending on the overall marketing strategies adopted. Advertising is one element of the promotion-mix and promotion is but one element of the marketing mix. Hence advertising strategy cannot be anything but an integral part of the promotion strategy which again is an essential component of the integrated foreign marketing strategy. International advertising strategy has therefore to be formulated within the framework of the marketing strategy and its role has to be clearly defined in helping achieve marketing objectives. Like any other marketing strategy, advertising should be used only if it can be economically and effectively contributed to the attainment of marketing goal in a given situation. Because of environmental differences, a certain type of advertising which works in one country may not work at all in another country or another market segment in the same country. International product advertising has therefore to be target-market-specific. Even if a standardised advertising theme or message is developed for multicountry use, it often becomes necessary to adapt or modify the central theme or message to suit the local conditions of a country or a region.

10.3 ELEMENTS OF ADVERTISING STRAEGY

Two broad elements dominate advertising strategy. These are: (a) Creative strategy and (b) Media strategy.

These two strategies are interlinked and interdependent. They are practically two sides of the same coin-one cannot be formulated in the absence of the other. In formulation international advertising strategy in creative and media terms, the advertiser comes across a host of environmental problems and limitations which would vary from market to market. Since the advertiser can not alter these given conditions and limitations in foreign country, the creative and media consideration have to be adapted to these conditions.

Creative Strategy

Verstility and creativity are key concepts in developing the creative strategy for an international advertising campaign. In formulation creative content of foreign advertising, the main factors to be considered include:

- Language factors
- Legal factors
- Cultural factors
- Production and cost factors

Language Factors

Language is one of the most formidable barriers to effective advertising communication. The problem involves not merely the different counties or even different languages in the same country, it also involves linguistic nuances and semantics, literacy rate, prevalance of idioms and dialects etc. Illiteracy for example, severely limits the number of people in a country who can be reached through print media like newspapers, magazines, etc. many countries are multilingual such as India, Canada, Switzerland, Israel, Soviet Union, with different communication media for people speaking different languages. This linguistic pattern in a country creates serious problems for economic and effective advertising communication.

Language tanslation also faces innumerable barriers to effective communication. A dictionary translation is not the same as an idiomatic interpretation and in advertising communication dictionary translations hardly suffice. For example, two popular American advertising slogans-'Body by Fisher' and 'Let Hertz put you in the driver's seat'-when literally translated into French would respectively read: Corpse by Fisher' and 'Let Hertz make you a chauffeur'. These translations not only lose their intended meaning but also become negative.

Legal Factors

In many countries, particularly in the developed countries, advertising is closely regulated, requiring modifications of the creative approach from country to country. Law pertaining to advertising may restrict the amount spent on advertising, the use of particular media, advertising of certain kinds products, the use of certain types of copy and visuals, comparative advertising, misleading and unfair advertising, use of foreign-made commercials and the like.

The German advertising legislation, for instance, is considered as the world's strictest and most specific". There as more than 50 central institutions and organisations monitoring German advertising practices. The other countries which are restrictive in advertising legislation include: UK, USA, Canada, France, Sweden, Austria, Belgium, Italy, Denmark, Finland, Australia, and Mexico.

One of the main objectives of statutory regulations of advertising is to promote the interst of the consuming public against factually misleading and unfair advertising. Consumerism movement and consumer organisations have became stronger and better organised. It is felt this movement has had profound impact on the advertising industry and consumer legislation.

Apart from legislative measures, advertising practices are also subjects to voluntary code or self-regulation action in many countries adopted by the advertising industry itself. In some countries large advertising agencies and media have their own standards for judging the content of advertisement. Some broad-based, self-regulatory codes on worldwide advertising practices also exist in International Chamber of Commerce (ICC) has formulated the 'International Code of Advertising Practice'

The ICC code is designed primarily as an instrument for self-discipline but it is also for use by the Courts as a reference documents within the framework of the appropriate laws. The basic principles of ICC code are:

a) All advertising should be legal, decent, honest and truthful.

b) Every advertising should be prepared with a due sense of social reponsibility and should conform to the principles of fair competition, as generally accepted in business.

c) No advertising should be such as to impair public confidence in advertising.

Cultural Factors

The advertising communication is often impeded by the great diversity of cultural heritage. Culture is pervasive in all marketing activities, including advertising. The fundamental problem of foreign marketing is the distance - not merely physical distance but distance in terms of market characteristics and foreign consumers habits attitudes and modes of thoughts. Cultural factors largely mould and shape people's value-system, perception faith and beliefs, aesthetic values and the like. People perceive and interpret advertising message in the light of their cultural background. For example, the customer benefits featured in the advertising may be appropriate in one country but may not be so in another country. The artwork may be visually unacceptable. The colour scheme or the copy theme may convey different meaning or cause different reactions among consumers in different countries. Such dangers of negative or adverse response become greater when the claim in an advertising has a psychological rather than a factual foundation. It is therefore necessary to understand the various dimensions and nuances of cultural heritage of people for formulation of effective advertising message aimed at international markets.

Production and Cost Factors

The facilities for and cost of production of advertisement substantially vary from country to country causing severe production limitations. Poor quality of printing and reproduction or non-available of high grade paper, for example, are genuine handicaps for creative work. The necessity for low cost reproduction in small markets poses another problem. Production and cost limitations exist nearly in all advertising media.

Activity 1

Select international advertisements of a product and a service. Describe how the elements of creative strategy have been used in them.

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Guidelines for Creative Strategy

The preceding description of limitations cause various creative problems in international advertising. It is therefore important to develop certain guide lines to deal with these problems and limitations internationally. An international advertising executive suggests five guidelines for international creative strategy. They are as follows:

1) Establish a firm policy on the degree of uniformity best suited to the company needs.

2) Look for common denominators, not differences.

3) Make maximum use of local marketing and creative talents.

4) Do not inhibit creative people.

5) Develop a criterion for measuring the creativity and effectiveness of advertising.

10.4 MEDIA STRATEGY

Media strategy is crucial for effectiveness of international advertising and it is closely linked with the creative strategy, for media availability is one of the limiting factors in creativity. Although nearly every sizeable country has some kinds of mass communication media in the form of the press, television, radio, cinema, outdoor, etc., there are a number of specific considerations, problems and differences encountered from one country to another. Primary areas that are of special concern to the international advertiser include: avaliability coverage and cost.

Availability

The availability of advertising media substantially differs from country to country. Normally, media availability is closely related to the socio-economic development of countries. Some countries have too few advertising media and others have far too many. In some countries Government does not allow advertising through certain media-specially television and radio - or some media are not allowed to advertise certain products. For example, advertising of products like tobacco, alcohol etc. are prohibited in many countries. In many developing countries the quality of print media, for example, is poor in terms of printing, paper or reproduction. Many bilingual or multilingual countries have bilingual and multilingual newspapers and magazines or radio and TV programmes, aimed at different linguistic groups. Media availability in a foreign country therefore is an important factor the international advertiser has to take into consideration in planning advertising strategy in a foreign country.

Coverage

The media coverage implies the number of people who are collectively exposed to different media like the press, television cinema or radio, available in a country. That is, how many people watch television or listen to radio, how many people see movies in cinema houses and so forth. This provides an estimate of the proportions of total population in a country who are exposed to different media. However, advertisers are more interested in individual exposure rather than collective exposure. In other words, how many people read a particular newspaper or magazine, watch particular television programmes or listen to particular radio channels which broadcast commercials. In addition, the advertisers are also interested to have socio-economic profiles of different media audience to make an assessment of qualitative coverage.

Such information as required by the international advertiser is not easily available or not available at all from any reliable sources. However, nearly all developed countries and many advanced developing countries have got media database for use of the prospective advertisers.

Apart from the conventional kinds of media, the new forms of electronic media are creating larger audience in several countries. Satellite-beamed TV media has the ability to create supranational audience. The cable TV segments the audience by region, by life-style and by special interest groups. The marketing significance of cable television lies in the way it is 'demassifying, the media in line with the modern trend to appeal to narrower segments of the market. Similar media trends are visible in pre-recorded video cassettes, discs and teletext systems. Similar trends have also set in for print media. New magazines and newspapers are published which appeal to specific interest groups.

Although the international media scene is not uniform all over the world, the international advertiser needs to keep himself abreast of the media availability in each country of his interest and select media mix for most effective and economic coverage.

Cost

The basic media cost involves the cost of space in the print media and the cost of time in electronic media, with wide variations according to special positions and special time segments. The media prices are normally quoted by the individual units of media but prices are suspectible to negotiation specially between the media-owners and advertising agencies. It is to be noted that the price of individual media unit is determined on the basis of the coverage potential of the media. For example, the cost of space in newspapers and magazines is based on the calculation of cost per thousand circulation or readership of the particular newspaper or magazine concerned. Media cost is an important determinant of international media planning.

Activity 2

In the context of international media scene, with the help of specific example explain how media availability and media coverage have affected media strategy of advertisers.

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10.5 ADVERTISING AGENCY

The advertising agencies play a very critical role in international advertising. It is therefore important that proper care is taken by the advertiser in selecting the agency for handling international advertising. It is often supposed that overseas advertising can be handled directly by the advertising agency employed in the home country. It is often a risky supposition because the home country agency is unlikely to have an insight into the nuances of socio-economic and cultural variations, as discussed elsewhere in this lesson. In the absence of such an insight, the creative work may be ineffective or even counter-productive. It is therefore important that the creative work for overseas advertising is carried out by the best available local advertising agent who will be sensitive to the local culture, semantics, habits and attitudes. There are numerous examples of failure of overseas advertising prepared without the adequate knowledge and understanding of the cultural milieu of the country concerned.

There are many multinational advertising agencies, mostly based in the United States and the UK which have set up world wide network of agencies through equity or non-equity collaboration, acquisition and mergers or direct investment. An affiliate agency in any country can use the global network facilities of these multinational agencies for advertising in foreign countries. For example, presently more than twenty advertising agencies in media have affiliation agreements with different multinational advertising agencies. In most cases international advertisers use the network facilities f the multinational advertising agencies.

Selection of advertising agency for overseas advertising should be made carefully. In may cases there are variations among the agencies in thier specialisation and organisational capability and expertise. Following are some guidelines for selection of advertising agencies.

Firstly, the size of the agency and its network of international affiliations should be considered. Often large agencies do not pay adequate attention to the small-budget clients. It is therefore advisable to select an agency whose size is compatible with that of the advertiser's budget and preferably sufficiently small but efficient to regard the budget as important.

Secondly, the expertise of the agency should be assessed carefully specially in the area of creativity and media planning. Some agencies will have more comprehensive and up-to-date media database in respect of foreign countries.

Thirdly, informal consultation, where possible, with the past and existing clinic of the candidate agencies might be helpful in selection.

These are some general guidelines for the selection of advertising agencies for international advertising. These are applicable whether a home agency with international affiliations or a multinational agency or a foreign country-based local agency is selected.

Activity 3

Talk to your own agency or any other agency which has international operation/collaboration, with respect to their last international campaign. Discuss with them on how the development creation and generation of an international compaign differs from a domestic one.

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10.6 INTERNATIONAL ADVERTISING SCENE

The following exhibit gives an overview of the international advertising scene in terms of top agencies and their billing. The media scene is also given.

Exhibit 10.1

AGENCY INCOME

Top 100 agencies worldwide by gross income

Advertising Age
March 26, 1990

Rank	Agency, headquarters	Worldwide gross Income 1989	Worldwide gross Income 1983	%age	Worldwide billings 1989	Worldwide billings 1988	%age	U.S. Income 1989	U.S. Income 1988	%age	U.S. billings 1989	U.S. billings 1988	%age
1.	Dentsu Inc., Tokyo	$1,316.4	$1,176.2	11.9	$10,063.2	$8,939.3	12.6	NA	NA	NA	NA	NA	NA
2.	Saatchi & Saatchi Advertising Worldwide New York	890.0	740.5	20.2	6,049.9	5,053.9	19.7	$395.2	$326.3	21.1	$2,778.9	$2,209.6	25.8
3.	Young & Rubicam, New York	865.4	757.6	14.2	6,250.5	5,390.3	16.0	409.5	372.8	9.9	3,114.8	2,791.8	11.6
4.	Backer Spielvogel Bates Worldwide, New York	759.8	689.8	10.2	5,143.2	4,677.9	9.9	310.7	282.7	9.9	2,158.0	1,964.2	9.9
5.	McCann-Erickson Worldwide, New York	715.5	656.8	8.9	4,772.3	4,381.0	8.9	209.1	197.0	6.1	1,394.8	1,314.0	6.1
6.	Ogilvy & Mather Worldwide New York	699.7	635.2	10.1	4,828.0	4,110.1	17.5	305.1	281.1	8.6	2,104.4	1,874.9	12.2
7.	BBDO Worldwide New York	656.6	585.9	12.1	4,550.0	4,051.2	12.3	373.6	340.5	9.7	2,656.0	2,414.3	10.0
8.	J Walter Thompson Co. New York	626.4	559.3	12.0	4,407.5	3,857.5	14.3	266.5	257.5	3.5	1,851.0	1,787.9	3.5
9.	Lintas: Worldwide, New York	593.3	537.6	10.4	3,957.6	3,585.6	10.4	224.9	201.7	11.5	1,499.9	1,345.4	11.5
10.	Hakuhodo Inc. Tokyo	585.5	522.2	12.1	4,449.2	3,939.1	12.9	NA	NA	NA	NA	NA	NA
11.	DDB Needham Worldwide, New York	552.9	399.9	38.2	4,095.4	3,020.3	35.6	302.9	244.4	24.0	2,386.3	1,929.3	23.7
12.	Foote, Cone & Welding Communication Chicago	510.9	483.9	5.6	3,413.9	3,242.5	5.3	280.5	273.7	2.5	1,871.2	1,825.8	2.5
13.	Grey Advertising, New York	498.9	432.8	15.3	3,267.4	2,886.5	13.2	240.7	227.9	5.6	1,605.3	1,520.3	5.6
14.	Leo Burnett Co., Chicago	483.8	428.4	12.9	3,245.5	2,865.1	13.3	288.8	263.4	9.6	1,945.3	1,765.0	10.2
15.	D'Arcy Masius Benton & Bowles, New York	471.5	428.7	10.0	3,803.1	3,360.8	13.2	232.3	209.6	10.8	2,055.3	1,794.2	14.6
16.	EWDB Woldwide, Paris	381.0	NA	NA	2,702.3	NA	NA	82.4	NA	NA	684.0	NA	NA
17.	Publicis-FCB Communications B.V., Paris (49% FCB)	358.8	337.0	6.5	2,405.4	2,278.6	5.6	4.3	2.7	61.0	31.7	19.0	66.8
18.	N W Ayer Inc. New York	210.5	185.2	13.6	1,398.2	1,347.7	3.7	128.8	127.8	0.8	859.1	946.7	(9.3)
19.	Bozell Inc., New York	190.7	179.2	6.4	1,400.0	1,283.0	9.1	155.4	150.3	3.4	1,165.0	1,090.0	6.9
20.	RSCG, Paris	175.3	151.6	15.7	1,234.3	1,128.2	9.4	27.3	18.2	49.6	216.8	151.9	42.7
21.	Tokyu Agency, Tokyo	156.2	134.6	16.0	1,259.4	1,115.2	12.9	NA	NA	NA	NA	NA	NA
22.	Dai-Ichi Kikaku, Tokyo	155.8	141.9	9.8	1,053.0	977.7	7.7	NA	NA	NA	NA	NA	NA
23.	Daiko Advertising, Osaka, Japan	152.1	139.7	8.9	1,214.1	1,126.7	7.8	NA	NA	NA	NA	NA	NA
24.	Chiat Day/Mojo, Venice, Calif	150.0	110.0	36.4	1,060.0	838.0	26.5	106.0	77.0	37.7	785.0	603.5	30.1
25.	Lowe International, London	137.8	NA	NA	918.6	NA	NA	42.0	NA	NA	279.9	NA	NA
26.	Wells, Rich, Greene, New York	132.5	125.1	5.9	885.0	835.9	5.9	132.5	125.1	5.9	883.0	833.9	5.9
27.	Scali, McCabe, Sloves, New York	127.0	107.0	18.7	870.1	77.6	12.9	79.0	71.8	9.9	59.3	559.7	5.5

		Worldwide gross Income			Worldwide billings			U.S. Income			U.S. billings		
		1989	1983	%age	1989	1988	%age	1989	1988	%age	1989	1988	%age
28.	TBWA Advertising, New York	123.7	97.4	27.0	827.0	671.9	23.1	33.2	23.1	43.8	221.6	154.1	43.8
29.	Ketchum Communications, Pittsburgh	117.8	109.9	7.1	915.7	776.0	18.0	112.9	102.1	10.6	854.9	726.0	17.7
30.	Asatsu Inc, Tokyo	113.9	102.7	10.8	837.3	740.4	13.1	NA	NA	NA	NA	NA	NA
31.	Yomiko Advertising, Tokyo	100.3	90.0	11.5	753.5	660.34	14.1	NA	NA	NA	NA	NA	NA
32.	Ross Roy Group, Bloomfield Hills, Mich.	97.7	85.2	40.6	651.1	568.1	14.6	97.7	85.2	14.6	651.1	568.1	14.6
33.	I&S Corp. Tokyo	94.7	83.2	13.9	770.2	692.9	11.2	NA	NA	NA	NA	NA	NA
34.	MPM Propaganda, Sao Paulo	83.9	NA	NA	220.7	NA	NA	NA	NA	NA	NA	NA	NA
35.	Asahi Advertising, Tokyo	82.9	70.7	17.3	509.4	440.3	15.7		NA	NA	NA	NA	NA
36.	BDDP, Paris	79.2	69.3	14.2	527.9	462.5	14.2	NA	NA	NA	NA	NA	NA
37.	Chell Communications, Seoul	64.0	44.7	43.1	247.5	194.1	27.5	NA	NA	NA	NA	NA	NA
38.	Nihon Keizaisha Advertising, Tokyo	56.3	47.1	19.6	337.3	283.0	19.2	NA	NA	NA	NA	NA	NA
39.	W.B. Doner, Southfield Mich	52.1	41.9	24.4	381.0	303.3	25.6	44.2	37.0	19.4	309.0	268.7	15.0
40.	Clemenger/BBDO, Melbourne (46.46% BBDO)	52.0	43.1	20.8	325.1	269.2	20.8	NA	NA	NA	NA	NA	NA
41.	Hill, Holliday, Connors, Cosmopulos, Boston	51.6	50.2	2.7	344.0	335.0	2.7	43.9	43.1	2.0	293.1	287.4	2.0
42.	Chuo Senko Advertising, Tokyo	50.6	47.0	7.6	376.4	345.8	8.9	NA	NA	NA	NA	NA	NA
43.	Armando Testa Group Worldwide, Milan	50.2	47.7	5.2	349.4	323.4	8.1	NA	NA	NA	NA	NA	NA
44.	Sogel Co. Tokyo	49.2	39.2	25.7	300.2	263.0	14.2	NA	NA	NA	NA	NA	NA
45.	Orikomi Advertising, Tokyo	47.5	40.8	60.3	435.8	491.9	3.8	NA	NA	NA	NA	NA	NA
46.	Oricom Inc. Seoul	45.1	32.5	38.8	173.0	137.0	26.3	NA	NA	NA	NA	NA	NA
47.	Admarketing Inc. Los Angeles	44.9	40.4	11.1	252.0	224.5	12.2	44.9	40.4	11.1	252.0	224.5	12.2
48.	FCAI Group, Paris	42.3	NA	NA	28.7	NA	NA	NA	NA	NA	NA	NA	NA
49.	Man-Nen-Sha Inc., Osaka	42.2	36.4	15.9	550.4	492.9	11.9	NA	NA	NA	NA	NA	NA
50.	Telephone Marketing Programs, New York	40.5	31.4	29.1	270.0	209.2	29.1	37.8	29.6	27.9	252.1	197.1	27.9
51.	Earle Palmer Brown, Bethesda. Md	40.1	36.2	10.8	310.5	271.1	14.5	40.1	36.2	10.8	310.5	271.1	14.5
52.	Collett Dickenson Pearce, London	39.1	31.9	22.5	269.6	216.1	24.7	NA	NA	NA	NA	NA	NA
53.	Jordan, McGrath, Case & Taylor, New York	38.5	38.5	0.0	315.0	300.0	5.0	38.5	38.5	0.0	315.0	300.0	5.0
54.	Almap/BBDO, Sao Paulo (19.9% BBDO)	38.0	NA	NA	144.1	NA	NA	NA	NA	NA	NA	NA	NA
55.	Nihon Keizal, Tokyo	37.2	29.6	25.6	254.8	211.5	20.5	NA	NA	NA	NA	NA	NA
56.	Levine, Huntley, Schmidt & Beaver, New York	37.1	32.1	15.7	250.3	216.4	15.7	37.1	32.1	13.7	250.3	216.4	15.7
57.	Ally & Gargano, New York	37.0	34.4	7.6	316.0	295.2	7.0	37.0	34.4	7.6	316.0	295.2	7.0
58.	Kyodo Advertising, Tokyo	35.3	35.4	(0.1)	265.6	270.0	(1.6)	NA	NA	NA	NA	NA	NA
59.	Tokyu Agency International, Tokyo (24.5% DMB & B)	34.9	30.3	15.0	272.4	233.5	16.7	NA	NA	NA	NA	NA	NA
60.	Laurence, Charles, Free & Lawson, New York	34.6	41.5	(16.5)	275.2	302.0	(8.9)	34.6	41.5	(16.5)	275.2	302.0	(8.9)
61.	Duailibi Petit Zaragoza Propaganda, Sao Paulo	34.6	NA	NA	139.6	NA	NA	NA	NA	NA	NA	NA	NA
62.	Hal Riney & Partners, San Francisco	33.8	23.0	46.7	225.0	200.0	12.5	33.8	23.0	46.7	225.0	200.0	12.5
63.	Meitsu Inc., Tokyo	32.0	31.0	3.2	13.1	193.5	10.1	NA	NA	NA	NA	NA	NA
64.	Nationwide Advertising Service, Cleveland	31.0	27.8	11.5	206.8	185.4	11.5	31.0	27.8	11.5	206.8	185.4	11.5
65.	Sankosha Tokyo	28.9	26.4	9.5	190.6	174.1	9.5	NA	NA	NA	NA	NA	NA

		Worldwide gross Income			Worldwide billings			U.S. Income			U.S. billings		
		1989	1983	%age	1989	1988	%age	1989	1988	%age	1989	1988	%age
66.	Cossette Communications-Marketing, Toronto	28.3	21.0	34.5	180.7	136.6	32.2	NA	NA	NA	NA	NA	NA
67.	Italia/BBDO, Milan (40% BBDO)	27.7	25.4	8.9	184.2	169.4	8.7	NA	NA	NA	NA	NA	NA
68.	Abbott Mead Vickers, SMS, London	25.8	23.6	8.9	194.4	177.6	9.4	NA	NA	NA	NA	NA	NA
69.	Direct Marketing Group, New York	25.7	26.1	(1.5)	149.6	152.9	(2.2)	25.7	26.1	(1.5)	149.6	152.9	(2.2)
70.	Warwick Baker & Flore, New York	25.5	24.0	6.3	170.0	160.0	6.3	70.0	160.0	6.3	170.0	160.0	6.3
71.	Gold Greenlees Trott PLC, London	24.4	22.1	10.4	164.4	142.6	15.3	NA	NA	NA	NA	NA	NA
72.	Norton Publicidade, Sao Paulo	24.2	NA	NA	96.8	NA	NA	NA	NA	NA	NA	NA	NA
73.	L.G. Ad, Seoul	24.1	19.0	26.6	160.7	126.9	26.6	NA	NA	NA	NA	NA	NA
74.	Evans Communications, Salt Lake City	24.0	22.1	8.5	160.0	147.5	8.5	24.0	22.1	8.5	160.0	147.5	8.5
75.	Allen Brady & Marsh, London	23.8	22.5	5.7	158.4	149.9	5.7	NA	NA	NA	NA	NA	NA
76.	Dailey & Associates, Los Angeles	23.3	19.6	18.4	155.2	131.0	18.4	23.3	19.6	18.4	155.2	131.0	18.4
77.	Austin Knight, London	23.0	19.1	20.4	153.6	127.6	20.4	NA	NA	NA	NA	NA	NA
78.	McKim Advertising, Toronto	22.6	22.1	2.7	151.1	147.2	2.6	NA	NA	NA	NA	NA	NA
79.	Griffin Bacal, New York	22.4	20.0	12.0	176.2	155.8	13.1	20.7	18.4	12.3	162.7	143.9	13.1
80.	Salles/Inter-Americana, Sao Paulo	22.0	NA	NA	109.9	NA	NA	NA	NA	NA	NA	NA	NA
81.	ARC Advertising, London	21.6	13.8	56.3	144.0	92.1	56.3	NA	NA	NA	NA	NA	NA
82.	Bartle Bogle Hegarty, London	21.4	19.0	12.8	159.2	126.7	25.7	NA	NA	NA	NA	NA	NA
83.	Keller Crescent Co., Evansville, Ind.	21.3	22.0	(3.4)	106.5	110.3	(3.4)	21.3	22.0	(3.4)	106.5	110.3	(3.4)
84.	Yellowhammer Advertising, London	21.3	17.4	22.4	141.8	115.9	22.4	NA	NA	NA	NA	NA	NA
85.	CFP Alliance, Paris	21.2	20.3	4.3	141.1	136.1	3.6	NA	NA	NA	NA	NA	NA
86.	Nambokusha Inc., Tokyo	20.8	15.2	37.2	165.2	117.2	14.9	NA	NA	NA	NA	NA	NA
87.	Neville Jeffress Advertising, Sydney	20.8	16.6	25.6	138.5	110.7	225.1	NA	NA	NA	NA	NA	NA
88.	Thomas G. Ferguson Associates, Parsippany, N.J.	20.6	16.9	22.1	120.7	102.1	18.2	20.6	16.9	22.1	120.7	102.1	18.2
89.	GSD&M, Austin, Texas	20.2	15.3	32.1	150.8	124.1	21.5	20.2	15.3	32.1	150.8	124.1	21.5
90.	Alliance International U.K., London	20.1	20.7	(3.1)	133.9	138.2	(3.1)	NA	NA	NA	NA	NA	NA
91.	Bloom Cos., Dallas	20.0	22.1	(9.5)	168.2	182.6	(7.9)	20.0	22.1	(9.5)	168.2	182.5	(7.9)
92.	Wyse Advertising, Cleveland	19.9	15.7	26.5	140.4	105.8	32.8	19.9	15.7	27.5	140.4	105.8	32.8
93.	Geer, DuBois, New York	19.5	18.0	8.3	130.0	120.0	8.3	19.5	18.0	8.3	130.0	120.0	8.3
94.	Rosenfeld, Sirowitz, Humphrey & Strauss, New York	19.1	17.4	9.5	127.0	116.0	9.5	19.1	17.4	9.5	127.0	116.0	9.5
95.	Korad Ogilvy & Mather, Seoul (30% O&M)	18.8	14.4	30.8	118.9	90.5	31.4	NA	NA	NA	NA	NA	NA
96.	Richards Group, Dallas	18.7	15.1	24.3	125.1	101.4	23.4	18.7	15.1	24.3	125.1	101.4	23.4
97.	Osaka Yomiuri Advertising, Osaka, Japan	18.5	16.2	14.0	142.1	124.6	14.0	NA	NA	NA	NA	NA	NA
98.	Standard Advertising, Tokyo	18.1	17.7	2.2	146.0	138.4	5.0	NA	NA	NA	NA	NA	NA
99.	Baker Lovick Advertising, Toronto (49% BBDO)	17.7	16.3	8.7	118.4	108.9	8.7	17.4	17.5	(0.6)	NA	NA	NA
100.	Rubin Postaer & Associates, Los Angeles	17.4	17.5	(0.6)	143.1	128.7	11.2	17.4	17.5	(0.6)	143.1	128.7	11.2

otes : All figures are US dollars are in millions percentages and initials in parentheses indicate equity amounts included in other top agencies. See Page S-20 for methodology.

Indicates that gross income and/or total volume figures are AA estimates Profiles of the Top 100 agencies begun on Page S-33 AA chart Kevin Brown

10.7 SUMMARY

Marketing communications in the international context become critical determinants of a marketer's success, not only because they have to compensate for the spatial and psychological distance between the firm and the customer, but also because it becomes more important tool of cultivation in a foreign market. Formulated within the framework of marketing strategy, advertising strategy utilizes the components of media and creative strategy to evolve effective marketing communication. Modern day advertising makes extensive use of advertising agencies being the benefits of specialisation to the task of communication. International Agency and Media scenario provides an idea of the scale of operation of this function in present day international marketing.

10.8 SELF-ASSESSMENT QUESTIONS

1) How do environmental variables affect the design of advertising strategy? Explain.

2) Describe the components of international advertising strategy.

3) How do coverage and availability of media influence the design of media plan?

4) Give an overview of the international advertising agency scenario.

10.9 FURTHER READINGS

Contractor, Farok J and pilee Lorange, *Cooperative Strategies in International Business,* Mass: Lexington Books, 1985.

Drun, S. Watson, Arnold M. Barban, Dean Kriyanan and Leonard N. Red *Advertising and its Role in Modern Marketing,* 7th ed. Hinsdale, III, Drydenpuss, 1990.

Jain, Subash and Lewis R. Tucker, *International Marketing: Managerial Perspectives.* Boston: CBI publishing,1979.

UNIT 11

INTERNATIONAL PRICING POLICY

Objectives

After going through this unit you should be able to:

- explain the factors influencing international pricing
- discuss the role of costs in international pricing
- describe the process of price setting in the international context
- explain the informational needs for international pricing

Structure

11.1 INTRODUCTION

From its domain in economics, to its application in management the issue of 'choice of a specific price for a specific product in a specific market' has baffled both, the student of economics and the managers, alike. The issue till date remains fuzzy, attached with it is a large element of subjectivity.

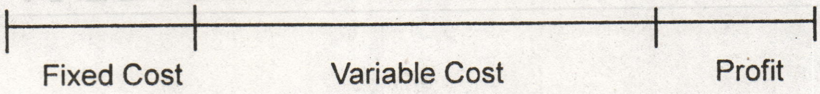
The marketing manager is concerned with the revenue function of the firm. An important variable of the revenue function is price (the other being quantity). Moreover, this variable possesses the capacity to influence the other variable i.e., the quantity sold. The economists refer to this relationship as price elasticity. It therefore, becomes necessary for the marketing manager to manage this variable.

11.2 COMPONENTS OF PRICE

The price variable is made up of two components viz costs and profit. The cost component is further subdivided as fixed and variable.

Exhibit 11.1

Components of prices



The economic theory. Weaves itself around those components, through demand and supply functions. to explain the process of price settings.

11.3 THE PROCESS OF PRICE SETTING

The marketing manager uses the parameters suggested by the economists for arriving at a price. These parameters may be enumerated as under.

- Costs
- Demand and supply
- Legal, economic and political constraints.

Costs

Costs represent the base line for setting the price. In other words, costs represent the price floor beyond which prices cannot be dropped. As already explained costs are made up of two components, fixed costs and variable costs. Fixed costs represent the unescapable element of cost, whereas, the variable cost represent the escapable costs. The variable costs are also sometimes interpreted as marginal costs or incremental costs.

Each of these component has its own significance when pricing a product but the significance is in turn is dependent upon the marketing goals, and other similar variables.

Demand & Supply

For a marketing manager the upper limit is demonstrated by the demand and supply conditions as they exist in the market. The demand conditions are interpreted from the market conditions and the consumer behaviour whereas, the supply conditions are interpreted by an analysis of the competition. The prices charged by the competitors, and the attributes and quantity sold by the competitors, set the supply parameters. Thus for e.g., the prices being charged for garments by the Italians and the South Asians will determine broadly the range that can be charged by the Apparel exporters. Again if the international buyer is alert he will through his awareness, bargain against the subsidies being provided by the Government to the exporter, thus forcing the Indian exporter to charge as per real costs.

Economic, Legal and Political conditions

These represent parameters outside the market forces which influence the price structure. The Government, it has been noted, can through its policy, in fact modify the market conditions, making them lopsided. Thus, the countries where the economic policies are directed by the Government, the economic and political conditions have an important bearing on price structures. Taxes and duty drawback represent excellent examples for the same.

Legalities lengthen any process and complicate it and thereby influence the price structure. The more the legal constraints to be adhered to, the more the price charged from the customers, in an effort to pass the increase in costs.

These parameter suggest the upper and lower limits but, the actual price lies somewhere in between. The effort of every manager is to arrive at a process that is easy and minimize the deviation from the chosen price, in order to ensure the resultant profit. As a result of this various methods of pricing have come into vogue which emphasise one variable as against the other variable. Cost plus pricing competitive pricing are products of the same thought. Cost plus pricing extensively employed by the Americans reflects an accounting thought rather than a managerial thought. Similarly competitive experience pricing extensively used by Japan reflects a supply side thought process.

It must be pointed out that marketing efforts are directed at fulfilling the need of the identified consumers. Price is an inherent factor of need. Therefore price must reflect managerial thought, and must fit into the overall marketing strategy.

A suggested process for arriving at the price would induce the following steps:

- Analysis of the marketing goals
- Choosing the marketing mix
- Composing the marketing mix
- Determining the pricing policy
- Defining the pricing strategy
- Arriving at a specific price.

Of course, the chronology is not important but thought on each of the above steps would enable the marketing manager to arrive at a price which fulfills his marketing objectives within the set upper and lower limit. Thus in brief, the marketing manager arrives at a price, within the parameters of cost, demand & supply and economic, political and legal parameters, by adopting a process that fulfills his marketing objective.

Activity 1

i) Price is an important element of marketing mix. Explain how does it fit in the above process.

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ii) What can be the possible objectives of a marketing manager while choosing a specific price?

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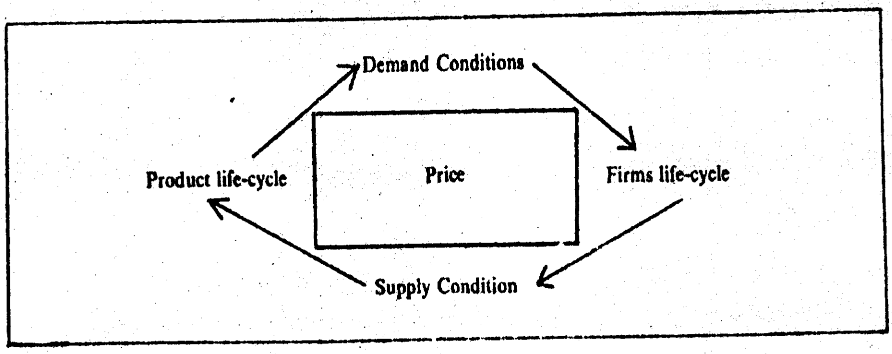
11.4 PRICING IN INTERNATIONAL MARKET

Although, the parameters and the process of pricing remain the same, new dimensions are added to the pricing decision when a firm starts exploiting the international markets.

When an organisation enters a new market in the international marketing arena, it opens itself to an absolutely new set of characteristics. Thus, as each market stands out as a separate entity and this influences the parameters of pricing.

Moreover, a products position on its life-cycle curve and the firms position on its life-cycle curve no longer remain sacred, adding more complexities to the pricing decision.

Exhibit 11.2



Firm Life-Cycle

In international marketing operation a firm moves from the export marketing stage to international marketing and finally graduating to multinational marketing.

At each stage the position of the firm on its life-cycles curve emphasises the influence it will bear on the pricing decision. The influence is likely to be felt in two ways-the marketing process it adopts and the marketing goal the firm chooses.

Export Marketing

Export marketing represents an entry mode for a firm, in its infancy, in international marketing process. At this stage the firm has neither the requisite marketing experience not the accompanying financial clout at its disposal. As a result of these shortcomings it cultivates large and organised buyers and has little commitment to the market.

Moreover, such a firm has little or no control over the distribution and promotion functions, owing to the above shortcomings. Therefore, price becomes the only variable that remains controllable given the product. Such a firm, therefore, uses price its unique selling proposition. The stature the price occupies that of a bargaining point.

As already pointed out the second influence is on the marketing goals and through it, the process of price settings. Because the firm is committed to large buyers, it has little involvement with the market. Therefore, the goal of such firm is short-term in nature with maximum emphasis on profit element of the price. It therefore resorts to marginal pricing to seek bulk orders. As the firm gains marketing experiences the goals become long-term in nature with emphasis on market cultivation. In such cases the firm vacillate between fixed or full cost pricing vs variable pricing.

The entire process of export pricing gives rise to certain issues. These issues may be discussed as under.

- Elements of price quotation
- Price escalation
- Fundamentals of pricing strategy

Elements of price Quotation

Since export marketing firms have to deal with organised buyers, the issue of making a quote arises. For making a quote three sub-elements must be considered. They are cost, currency, terms and buyers limit.

Cost

Cost represent an important element of quote but cost itself is composed of many sub-elements. The exhibit below gives the major sub-elements of the cost component.

Exhibit 11.3

Table : Elements of Cost for Export Pricing

1) Direct costs:

a) Variable costs:

Direct material

Direct Labour

Variable production overheads

Variable Administrative Overheads

(e.g. salary of an export clerk)

b) Other costs directly related exports:

Selling costs-adverting support to importers abroad:

Packing

Commission to Overseas agent

Export credit insurance

Local charges

Forwarding charges

Inland insurance

Port charges

Export duties, if any

Warehousing

Incidentals

Interest on funds involves/deferred credit

Cost of free parts supply

Consular fees

Pre-shipment inspection and loss on rejects

Total direct costs

Less :Export incentives allowed by the Government

Direct cost net (F.O.B. export price at marginal cost)

2) 1+ Fixed costs/common costs

Production overheads

Administration overheads

Publicity and advertising (general)

Travel abroad*

After-sales services*

F.O.B. price (based on full cost)

3) 1+Freight

+insurance

= C.I.F. Price (based on marginal cost)

4) 2+ Freight

+Insurance

= C.I.F. Price (based on full cost)

Part 1 of the cost sheet gives the lower limit for export pricing. As would be clear from the cost sheet, all costs directly related to exports are taken into account for fixing the lower limit. If some incentives are allowed by the government on the export of the product concerned the lower limit would be further reduced by the amount of incentives.

* To begin with, they may be treated as fixed cost. When business develops, they may be treated as variable costs.

Currency

The choice of currency in which the quote is made is an important decision. For, an unwarranted fluctuation in the exchange rate may wipe out the business profits and, at the same time if the firm is capable of exchange rate management, it can magnify its business profits through exchange speculation. If the firm does not possess the required competence of exchange management, then choosing a stable currency might represent the appropriate answer. Until recently the japanes Yen and the German Mark represented stable currencies.

Terms of Trade

The trade terms represent an important element of the quote. The quote price changes with change in terms.

Here, it must be pointed out that different producers can produce at different cost levels and therefore this method can only provide a guideline for entry.

The Effects of Terms of Delivery on Price

Therefore, the price quoted by an export will need to be adjusted according to the terms of delivery. The simplest way to understand this is to study an example. The one quoted below concerns a shipment of cloth from Britain to Milan by sea. The basic price the exporter wished to receive was $32 a metre. The enquiry was for 3,000 metres. Hence the exporter began by wishing to receive at his works a total of $6.000. The costs at all stages of delivery to Milan were as follows:

	$
Prices of the cloth, unpacked, at works	6,000
Packing costs	300
Transport to docks by rail	450
Port dues and loading charges	60
Freight by sea to Genoa	875
Landing charges at Genoa	90
Duty payable on 3,000 metres of cloth	1,200
Transport from Genoa to Milan	150
Insurance, all risks, to Milan	100
	9,225

1) If you quoted 'Ex Works', your price would be $ 6,000 because you would have no additional costs to add. But in this case, you would have to specify 'Packing extra at cost; since export packing is seldom included in the cost. If it so, then your price would be $ 6,300.

2) If you quoted F.O.R., you would probably not add anything further, unless you were some distance from the railhead.

3) If you quoted F.A.S., you would have to add the cost of taking the goods by rail to the port, so in this case your price would be $ 6,750.

4) If you quoted F.O.B., you would have to add the port charges, which would include any documentation. Thus your price would now be $ 6,810.

5) With a C.i.F quotation, you have to include the freight to the nearest port, in this case Genoa, and the insurance. Which this has been shown as $100, this was right through to Milan, so you might need to add only $ 80, when your C.I.F. price would be $ 7,765.

6) Selling on a Franco Domicile basis you would have to add all landing charges at Genoa, the duty payable on the cloth, the full insurance and the freight from Genoa to Milan. Thus your final price deliver to your customer's warehouse in Milan, would be $ 9,225.

From the customer's point of view he has least to do when he buys from you on a France Domicile basis. He has most to do when he buys Ex-works. Customers often prefer to buy on F.O.B. terms for three reasons:

1) They have other goods being sent to them and wish your goods to be shipped at the same tome, possibly saving fright charges.

2) They can use the ships and other services of the own country, thereby saving foreign currency.

3) Their import licences may be granted on an F.O.B. basis.

(Example taken from Export Made Simple by Deschampsneufs, pp. 25-26)

The Buyers Limit

Although, this limit shall vary from buyer to buyer the general method adopted is to identify and match costs. The process is to learn about the quoting prices and then to work backwards. Thus, to get an idea of the possible quote one can take the market price and start deducting major elements as shown in the exhibit below:

Market Price in the Target market

Less: Retain margin on the selling price

Cost to the Retailer

Less: Wholesaler's mark-up on his cost

Cost to the Wholesaler

Less: Importer's mark-up on his cost

Cost to the Importer

Less: Importer Duty

Land Price

Less: Freight and Insurance charges

f.o.b. realisation to the exporter.

This will give an idea whether with the existing cost structure is it possible to make a competitive quote.

11.5 INFORMATION FOR PRICING DECISIONS

An important pre-requisite for scientific export pricing decisions is regular availability of authentic basic data relating to export products, foreign market and other relevant marketing information. The details of information requirements vary from product to product, market to market and firm to firm.

In general, the following information is usually necessary for facilitating export pricing decision:

Promotion Information

1) Production cost details:
    a) Prime cost
    b) Factory overheads
    c) General Administration overheads
2) Cost of distribution
    a) Cost of packing
    b) Cost of selling
    c) Cost of transportation including insurance
    d) Distribution costs at the importing and
3) Cost of marketing support-advertising, sales promotion and technical literature.

These data may have to be obtained for the exporting countries, for competing countries and for consuming countries.

i) Nature of the Product
    a) Whether a consumer or an industrial product
    b) Elasticity of demand
    c) Can demand be pushed up by promotion
    d) Importance given to the price-quality mix
    e) Elasticity of supply of the product
ii) International levies, taxes, etc.
iii) Export incentives
iv) Product guarantees
v) Installation and after-sales service requirements, and
vi) Percentage incidence of rejects.

Market Information

i) Market Structure- high competition, little competition or low competition

ii) Peculiarities of the Market-Developed and developing countries. Particular segments in developed countries may be interested in low price goods.

iii) Ruling price in the foreign market including prices of substitutes

iv) Terms of payment offered by the competitors and demanded by importers

v) Import duties, border fiscal charges and quota, restrictions.

vi) Major sources of supply in the importing country-local and foreign

vii) Trade preferences and/ or trade agreements, if any

viii) Extent of G.S.P. concessoins, if any

ix) Brand image, brand loyalty and consumer preferences

x) The nature of market segmentation, if any

xi) Publicity-need, media and cost

xii) Channels of distribution and the margins allowed to various intermediaries

xiii) Shipping freight, insurance, packing, banking, transportation and other charges incidental to export, and

xiv) Documents and invoicing requirements, health and sanitary regulation and other government regulations.

Information Required at the Micro Level

Some of the strategic points of information necessary for pricing decisions at the micro level cover the following aspects:

i) Production capacity of the firm - installed as well as utilised

ii) Proportion of total production supplied to the home market

iii) Proportion at present exported

iv) *Inter se* competition among domestic firms in the export field, and

v) Additional export possible

As regards the supplies for additional exports, the essential information required is:

i) Whether it would involve curtailment of supplies to the domestic market

ii) Whether it would lead to the utilisation of idle capacity, or

iii) Whether it would require commissioning of new capacity.

11.6 SOURCES OF PRICE INFORMATION

The exporters' own files could give an idea of the prices charged in the past and as to what extent they were acceptable.

Domestic export statistics usually provide quantity and value of the commodities/ products exported. If we divide the value by quantity, we can get an idea of the export price realised by the domestic exporters. So also a look at the foreign import statistics could give an idea of the prices paid by importers for imports of various products/commodities from various countries.

Export promotion Councils/Bureaus also provide an idea of the possible prices at which the products could be exported.

Commodity price Bulletins issued by the United Nations, International Monetary Fund and Food and Agriculture Organisation provide an idea of the export, import and wholesale prices of the various commodities. The prices at which the commodities are traded at the various commodity exchanges are usually published. So also publications of commodity oriented organisation like International Sugar Agreement could provide an idea of the sport and auction prices. The Common wealth Economic Committee also publishes wholesale, quoted and import prices of commodities of interest to Common wealth countries.

Catalogues published by departmental stores of the major developed countries can provide an idea of the prices charged for the various products from consumers. Of course, the exporter would have to work backwards by deducting the retail margins, wholesale margins, the import duties and the freight and insurance charge. Trade journals very often provide price data about the products covered. Studies made by various research organisations including the International Trade Centre also contain the data about prices and the margins applicable at various distribution levels.

Reports of Trade Delegations could be another sources of price information. Participation in Trade Fairs and Exhibitions could possibly give the best idea about the prices of the products covered by the fairs & exhibitions as also of the modifications required in the product.

In addition, there are specialised price information agencies which could also help the exporters about prices which could be obtained for the products exported by them. The two major agencies are Reuters, 85 Fleet Street, London and Unicom 72-78 Fleet Street, London.

Activity 2

Visit an exporter to find out the criteria he uses to make the quote.

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What emphasis does an Indian exporter give to the currency management issue.

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International Marketing and the Pricing Decision

In export marketing price had remained the most important variable of marketing mix. But, as the firm grows and builds upon its international marketing experience and financial clout, it changes its orienatation. It no longer seeks out bulk buyers but chooses to develop markets i.e., it starts on the process of consumer orientation. Promotion becomes a tool in its hand and therefore even the distribution function comes to be influenced. All this is result of the change in marketing goals.

With the change, in marketing goals the process of arriving at a specific price, also undergoes a change, because the pricing objectives have to remain consistent with the other marketing objectives. Various pricing strategies adopted reflect the marketing goals of the company. Thus experienced pricing (a strategy commonly adopted by the japanese) reflects a desire to take advantage of scale and gain through volume. Whereas pre-emptive pricing reflects the marketing goal of market share maintenance similarly the penetration pricing strategy reflects the marketing goal capturing a large market share. The emphasis of such pricing strategies is on value rather than costs, and all of these strategies reflect long-term commitment on part of the firms.

11.7 ISSUES IN INTERNATIONAL PRICING

Several issues have cropped up with references to international pricing among them. The most important are the issue on inflation and the issue on transfer pricing.

With the problem of inflation being faced by almost every country the pricing policies must incorporate measures to deal with it. For inventory being held would loose value if proper measures aren't undertaken. NIFO (Next in First Out) is one of the techniques followed in countries with high inflation rates.

Similarly to this is the issue on transfer pricing. Although the optional methods remain the same the objects change in the arena of international pricing. There is the desire to take advantage of the differential tax structure. Various governments are faming rules to prevent this form of tax planning.

Activity 3

What are the various methods for transfer pricing? How would its application differ in case of multinational concerns

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11.8 SUMMARY

In this unit an attempt has been made to illustrate how the pricing decision is taken by the managers. The parameters that determine price floor and price ceiling have been discussed. The manager has open to him the choice of a specific price within these parameters. For this, a process has been breifly discussed. The isssues that arise in relation to pricing decision, when a firm enters international market have also been explained.

11.9 SELF- ASSESSMENT QUESTIONS

1) what is the premise of cost plus pricing ?
2) what are the major components of a quote ?
3) what role does choice of currency play in the management of revenue function ?

UNIT 12
INTERNATIONAL DISTRIBUTION AND SALES POLICY

Objectives

After going through this unit you should be able to :

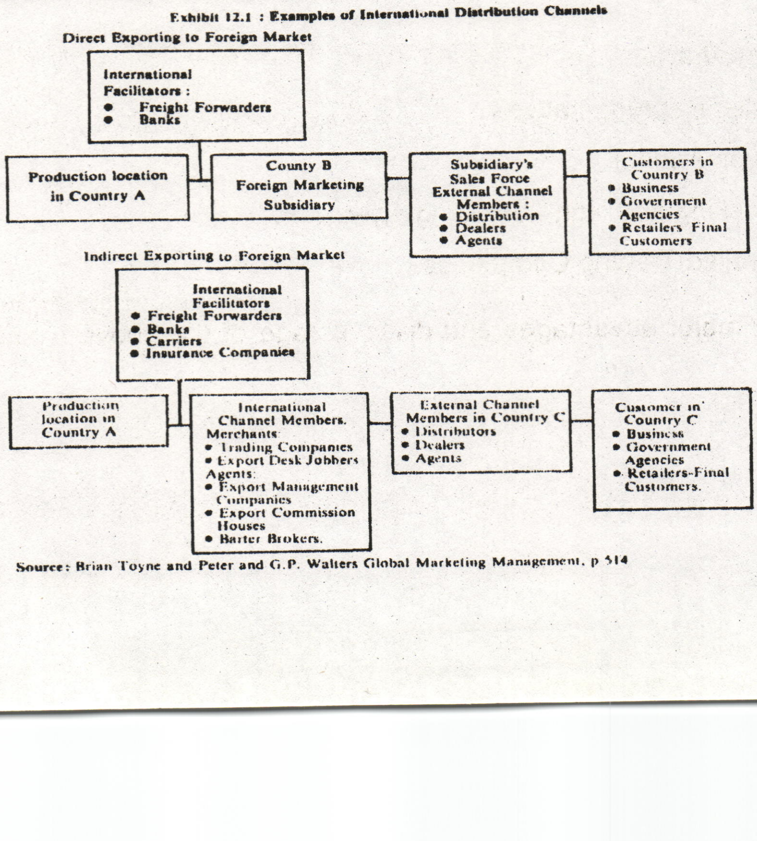
- explain the international distribution channels and the option available of direct and indirect distribution:
- identify the key elements of international distribution and sales policy;
- highlight the importance of systematic management of channel members and their motivation and control.
- gain an overview of the physical distribution management.

Structure

12.1 INTRODUCTION

Distribution plays an important role in the implementation of the international marketing programme as it enables the products and services to reach the ultimate customer. An international marketing firm has the option of managing its distribution function either directly or indirectly through middleman or a suitable combination of the two. See Table 1.

Exhibit 12.1 : Examples of International Distribution Channels



Source: Brian Toyne and Peter and G.P. Walters Global Marketing Management, p 514

Due to physical distance, and also the differences in geographical cultural and market characteristics of the trading countries, use of middlemen is found quite prevalent in international marketing. In fact, distribution is one such primary functions of marketing which makes use of the services of external independent agencies that bind the firm in a long term relationship. Also this function has been found to be a dark continent of marketing and reaserches point out to numbers areas which carry potential for improving the efficiency and effectiveness of this as well as the overall marketing function. This function, therefore, needs to be managed systematically, and the formulation of an appropriate international distrubution and sales policy form a vital part in its management.

12.2 INTERNATIONAL DISTRIBUTION CHANNELS

As already mentioned, international marketers have the options of organizing distribution of their goods in foreign markets through the use of indirect channels, i.e., using intermediaries, direct channels or a combination of the two in the same or different markets.

Indirect Distribution

Indirect channels are further classified based on whether the international marketer makes use of domestic intermediaries. An international market therefore, can make use of the following types of intermediaries for distribution in foreign markets.

a) Domestic Overseas Intermediaries

- Commission buying agents
- Country - Controlled buying agents
- Export Management companies (EMCs)
- Export merchants
- Export agents
- Piggy backing

b) Foreign intermediaries

- Foreign Sales Representatives
- Foreign Sales Agents
- Foreign Stocking and Non - Stocking Agents
- State Controlled Trading Companies.

The definition and major advantages and disadvantage of the above types of intermediaries are given in Exhibit 12.2.'

Exhibit 12.2 : Intermediaries in International Distribution : basic definitions

(a) Domestic Overseas Intermediaries

Type	Definition	Advantages	Disadvantages
Commission buying agents	Hoders working in the U.S. for a foreign company on salary commission basis in search of lowest prices & best deliveries	Same ease as domestic sale	No true international exposure experience gained
Country controlled buying agents	Similar as above but controlled by the foreign government	Same as above	Same as above
EMCs	Independent firm contracted by manufacturer to develop exports sales handle shipping and delivery arrange for payment	Immediate experience and international contracts.	Some loss of control and lower gross profits
Export merchants	Purchase for own account to resell in the market place	Same ease as domestic sale	Loss of market control
Exporters	Act as international manufacturers representative	Low overhead expense	Lack of control
Piggy backing	Selling to domestic company with compatible product line already well placed in the international market	Immediate access to experienced held force in same product area	Partial loss of control and lower gross profits

b) Foreign Intermediaries

Type	Definition	Advantages	Disadvantages
Foreign Sales representatives	Foreign manufacturer step who handles related product line on commission basis	Knowledge of local market and ability to cover area	Sells numebr of products and may not push yours
Foreign Sales Agent	Same as above but with degree of authority to commit your company	Same as above can make local decisions	Same as above
Distributor stocking or non-stocking	Purchase your products for resale to end user	Same as above plus can provide on site service	Some lack of control and pricing
End user	Similar to above though do not use product directly	Local control	Requires export sales force
State buying companies	Your foreign customer	Often found in centrally controlled economics	Same as above

Source : Adapted from R. Wayne Walvoord, *Ten steps to Successful Exporting*. Amacom, p. 43.

Direct Distribution : Linking International Distribution and Sales

The options available to international marketer in organizing direct distribution range for sending missionary sales representatives abroad from the headquarter; setting up of local sales/branch office in the foreign country or for a region; establishing a subsidiary abroad entering into a joint venture or franchising agreement.

Companies have long-term interest in international marketing find it expedient to deploy their own sales force in foreign markets. This helps them in increasing their sales volume through committed market development activities; better control and motivation of foreign intermediaries being used, and paving the way for smoother transition to direct distribution and marketing.

12.3 INTERNATIONAL DISTRIBUTION POLICY

The international distribution policy of a firm according to Cateora, should cover the following factors:

1) Question of control, size of margins, length of channels, terms of sale and channel ownership.
2) Resource (money and personnel) commitment plans for the distribution function management keeping profit goals in a foremost position.
3) Specific market goals expressed in terms of volume, market share and margin requirements, to be accomplished.
4) Return on investment, sales volume and long run potential as well as guidelines for solving routine distribution problems, and
5) The relationship between long and short term goals, the extent of the company's involvement in the distribution system as well as the extent of its ownership of middlemen.

Adapting to distribution patterns

Notwithstanding, the international distribution policy of the company, the factor of flexibility to adapt the distribution policy to local conditions of the foreign markets is very crucial for effective results.

A clear understanding of the target market characteristics covering aspects such as traditions and conventions in the wholesaling and retail distribution patterns (see Exhibit 12.3); shopping habits of customers including customers reliance on channel members for product informations and servicing: commercial terms; and legal requirements help define the selection of channels;

The following trends help to illustrate the need of the above analysis for suitable adaptation of the distribution patterns:

- In the US, there has been a rapid expansion of large supermarkets and other retail chains, and also the deep vertical integration into wholesale and manufacturing by large retail house.
- In Sweden, a powerful consumer-oriented cooperative movement handles a substantial business in food, petroleum, etc.
- In Mexico, there is a modern retail distribution for the urban people, and traditional outlets and public distribution system exists for the poor.
- In China, wholesalers mainly control the Chinese distribution system.
- In Japan, large trading companies, handle half of Japanese trade while a large number of wholesale and retail outlets help products to penetrate in its market.
- In Saudi Arabia, a small number of hands approved by the royal family control its manufacturer - wholesaler - retailer distribution system.
- In peru, importers act as distributors or wholesalers, and retailing is done typically through retail chains and street merchants.

Exhibit 12.3 : Characteristics of middlemen in foreign countries

Type of duties	Agents				Merchants				
	Broker	*Factor*	*Manufacturer's representative*	*Managing agent*	*Comprador*	*Distributor*	*Dealer*	*Import jobber*	*Wholesaler and retailer*
Take title	No	No	No	No	No	Yes	Yes	Yes	[illegible]
Take possession	No	No	Seldom	Seldom	Yes	Yes	Yes	Yes	[illegible]
Continuing relationship	No	Sometimes	Often	with buyer seller	Yes	Yes	Yes	No	Usually not
Share of foreign output	Small	Small	All or part for one area	n.a.	All one area	All for certain countries	Assignment area	Small	Very small
Degree of control by principal	Low	Low	Fair	None	Fair	High	High	Low	Nil
Price authority	Nil	Nil	Nil	Nil	Partial	Partial	Partial	Full	Full
Represent buyer or seller	Either	Either	Seller	Buyer	Seller	Seller	Seller	Self	Self
Number of principals	Many	Many	Few	Many	Few	Small	Few major	Many	Many
Arrange shipping	No	No	No	No	No	No	No	No	No
Type of goods	Commodity and food	Commodity and food	Manufactured goods	All types manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods
Breadth of line	Broad	Broad (often specialized)	Allied lines	Broad		Narow to broad	Narrow	Narrow to broad	Narrow to broad
Handle competitive lines	Yes	Yes	No	Yes	No	No	No	Yes	Yes
Extend of promotion and selling effort	Nil	Nil	Fair	Nil	Fair	Fair	Good	Nil	Nil usually
Extend credit to principal	No	Yes	No	No	Sometimes	Sometimes	No	No	No
Market information	Nil	Fair	Good	Nil	Good	Fair	Good	Nil	Nil

Note n.a. = not available

Source: Philip R. Cateora, *International Marketing*, p.596

Agents in Foreign Markets

Agents, known by different names and performing varying functions in different foreign markets, have an historically established place in international distribution. While agents do not take the title to the goods, their importance stems from: local language proficiency, access to important policy and decision - makers. Overcoming business culture differences; short circuiting the buying - selling process; and performing the cumbersome formalities and complying with routines and procedures of the foreign market.

Activity1

Check whether the following questions are true or false

1) The channels of distribution available in a foreign country are the result of corporate power.
2) Channel type and relationship mainly depend on the relative size of international marketer rather than on a country's level of development.
3) An international marketing firm may choose a direct distribution to maintain complete control over distribution in foreign markets.
4) It is not necessary for a distributor in foreign markets to have financial strength.
5) International distribution policy should only focus on satisfaction of target customers.

Answer : 1(False) 2 (True) 3 (True) 4(False) 5 (False)

12.4 SELECTING DISTRIBUTIION CHANNELS AND CHANNEL MEMBERS

Within the overall international distribution policy of the firm, factors of:

(1) capital requirements; (2) level of distribution costs; (3) desired extent of control over distribution channel; (4) depth of market coverage; (5) product - market distribution pattern characteristics; (6) competitive practices; (7) legal requirements; and (8) short-term versus long - term involvement of the firm in international marketing govern the choice of distribution channels.

This is followed by the development of a criteria for the selection of specific intermediaries. The criteria generally includes factors as financial soundness, local government contacts, business reputation, distribution network, technical support and infrastructural facilities (esp. relating to heavy industrial goods), business experience and managerial expertise, commercial terms, and extent of exclusivity to the international marketer. As the selection of the channel members commit the marketer to them for a relatively long period of time their selection involves a cautious process and a careful analysis and referencing. Some international marketers make us of an elaborate process in this regard which begins with relative rating of candidate firms on predetermined criteria, and example of which appears in Exhibit 4.

Exhibit 12.4 : Example of Distributor (Dealer) Selection Criteria

Criteria (no ranking implied)	*Weight*	*Distributor 1*		*Distributor 2*		*Distributor 3*	
		Rating	*Score*	*Rating*	*Score*	*Rating*	*Score*
1. Financial soundness and depth of channel member	4	5	20	4	16	3	12
2. Marketing management expertise and sophistication	5	4	20	3	15	2	10
3. Satisfactory trade/ customer relations and contacts	3	4	12	3	9	3	9

Criteria (no ranking implied)	Weight	Distributor 1		Distributor 2		Distributor 3	
		Rating	Score	Rating	Score	Rating	Score
4. Capability to provide adequate sales coverage	4	3	12	3	12	3	12
5. Overall positive reputation and image as a company	3	5	15	4	12	4	12
6. Product compatibility (synergy or conflict?)	3	3	9	4	12	4	12
7. Pertinent technical know-how at staff level	—	—	—	—	—	—	—
8. Adequate technical abilities and service support	—		—		—	—	—
9. Adequate infrastructure in staff and facilities	1	5	5	3	3	3	3
10. Proven performance record with client companies	2	4	8	3	6	3	6
11. Positive attitude toward the company's products	1	3	3	3	3	3	3
12. Mature outlook regarding the company's inevitable progression in market management	1	3	3	3	3	3	3
13. Excellent government relations	1	4	4	3	3	3	3
Score			111		94		84

SCALES	Rating	Weighting
5	Outstanding	5 Critical success factor
4	Above average	4 Prerequisite success factor
3	Average	3 Important success factor
2	Below average	2 Of some importance
1	Unsatisfactory	1 Standard value

Source : Based on Finding and Managing Distributors in Asia. Business International quoted in Toyne and Walters, *Global Marketing Management.* P.510.

After the channel member is selected it is a prudent business practice to enter into a written agreement spelling out the scope of commitment to each other and thus minimising the possibility of disputes and misunderstandings. Exhibits 12.5 lists the items that should be included in a typical agreement with the foreign channel members.

Table 5 : Items to include in an agreement with foreign channel members

- Name and address of both parties
- Date when the agreement goes into effect
- Duration of the agreement
- Provisions for extending or terminating the agreement
- Description of product lines included
- Definition of sales territory
- Establishment of discount and/or commission schedules and determination of when and how paid.
- Provisions for revising the commission or discount schedules
- Establishment of a policy governing resale prices

- Maintenance of appropriate service facilities
- Restrictions to prohibit the manufacture and sale of similar and competitive products
- Designation of reponsibility for patent and trademark negotiations and/or pricing
- The assignability or non-assignability of the agreement and any limiting factors
- Designation of the country and state of contract jurisdiction in the case of dispute

Source : A Basic Guide to Exporting, United States department of Commerce. P 66 quoted in Subhash C. Jain, International Marketing Management p.498.

Motivation of Channel Members

In order to get the best out of the international marketer and channel members relationship it is necessary that economic and non-economic incentives be used for the purpose. It may be emphasised that channel members being independent business entities their key consideration for relationship is economic. If the channel members does not get an adequate economic return it is unlikely that he will put in his best in the business. In addition regularity of contact, involvement in goal setting, better understanding of the international marketer's business and provision of assistance in market development or other areas of deficiency of the channel members capability prove useful for getting the channel members more than what they are generally expected to contribute.

Robert Douglas Stuart suggests the following ways for strengthening the channel members loyalty :

- Build your distributor with your company: bring him into your picture; discuss future plans as they affect his area with him, seek his advice.
- Give your distributor an effective profit margin; try to keep in mind that you want to be in business with him for several years; make him want to continue the relationship.
- Be sure he has credit terms which make him competitive, or more so, in amount and length of payment.
- Maintain regular correspondence, and make sure he can clearly understand what you have to say.
- Make a point of commenting on successful distributors in whatever communication you use in his area (advertising, publicity, house organs, sales bulletins, and so on)
- Keep your obvious control to a minimum; as his performance improves, your supervision can be reduced.
- If financing is needed locally and you have the ability to help do so if his situation justifies this.
- Bring the distributor ......(to your country) on the occasion and let him see what goes on.
- Establish a recognition system: recognition certificates, cash prizes, trips and so on.
- Make available rememberance items: give aways with your Company name - perhaps, if warranted with his name too.

Control of Channel members

Control of channel members in international distribution though difficult yet is an important aspect of its management. Accomplishment of sales targets, market coverage and development goals, payment schedules, and profit contribution made are some of the factors on which the performance of channel members is appraised and controlled. Constant minitoring, periodic reviews, regular communications and intermittent suggestions help a market to control its channel members and keep the marketer - channel member power balance in its favour. Legal requirements and adverse impact on reputation must be given their due weightage if and when the unavoidable decision of termination of channel member is to be taken.

12.5 INTERNATIONAL PHYSICAL DISTRIBUTION MANAGEMENT (IPDM)

Physical Distribution or logistics of goods represents yet another crucial element of international distribution policy. Its management includes the functions as well as costs associated with packing, order taking and processing, and inventory control. Given the geographical distance, the associated business risks and the variety of transportation modes available, the management of this function poses a difficult challenge so far as the objectives of ensuring ready and regular supply of goods, in foreign markets at the most optimal costs are concerned.

PDM, known as the dark continent of marketing offers tremendous potential in cost cutting and improving profitability. It requires the use of a systems approach and the management of the transportation. Warehousing and inventory functions in an integrated manner.

To facilitate the performance of the tedious physical distribution actvities and procedure, international freight forwarders play an important role. The typical functions performed by them are given below.

1) Figure costs, FAS or C&F. develop most economic methods of shipment to port, port charges, wharfage, handling, tollage, etc. at port of exit; ocean freight rate and steamship services available; consular requirements and fees, insurance costs for terms of coverage specified in sale; export licence or import permit requirements.

2) Make steamship booking; If payment is by letter of credit, check date shipment must be onboard and expiration date for negotiating documents. Investigate transit time from plant to port, and free time allowed so shipments will arrive in time and demurrage will not be incurred.

3) Instruct shipping department when to make shipment from plant. Notify steamship company when shipment made and whether by rail, truck, air or piggy express, giving routing, name of carrier.

4) Secure pier permit. Make arrangements for delivery to pier.

5) Prepare export declaration showing shipper, consignee, value and commodity classification number.

6) Prepare bill of lading, checking compliance with all conditions and terms of sale, shipper consignee open or order notify, freight collect or prepaid, description, etc.

7) Present export declaration to Custom House for approval and deliver to steamship company.

8) Present bill of lading to steamship company for execution.

9) Secure consular forms, prepare consular documents (in foreign language if required). Present to consul for visa.

10) After shipment is on board, secure signed bill of lading from steamship company, paying ocean freight and chargee.

11) Assemble documents, bills of lading, commercial and consular invoices, certificate of origin, export licence, import permit, as required.

12) If payment is by sight draft, attach necessary documents and have exporter's bank forward. In on letter of credit, present documents to bank holding credit.

Large - sized shipping vessels, increase in number of air cargo planes, development of air cargo terminals, containerisation and other innovation in bulk transportation have been successful in reducing both the transit time and delays but at higher costs. It is therefore necessary that the PDM be managed in a cost - effective manner.

An in-depth study of the PDM costs and an analysis of the causes of delays and damages to goods can point out to areas of potential savings in costs and improvement in customer service satisfaction.

Containerisation

The container system, widely developed in the United States, provides a highly efficient and flexible form of transport by road, rail, air and water. Containers are large boxes that the seller fills with the shipment. These containers are then sealed and opened only when the goods arrive at their final destination. Over the long voyage, the containers, but not the goods, will be handled several times. The fact that the majority of containers are built to internationally recognised dimensions means that cargo handling in ports can be fully mechanized using standard equipments. Ships can also be purpose built to carry an optimum number of containers.

The various advantages offered by containerization include:

1) Containers can be loaded and sealed at the consignor's premises or at nearby container depot, minimizing the risk of theft.

2) Since the goods are not directly handled during voyage, the risk of damage is minimized.

3) Cargo can be loaded in a matter of hours rather than days. The reduction in handling time at ports results in increasing berth capacity.

4) The faster turn round enables ships to make a higher number of annual voyages and reduces the number of necessary ships.

Because of the numerous advantages, both air and water carriers encourage the use of containers / charging lower rates for containerized shipments..

Activity 2

Tick the most appropriate answer

1) The selection and motivation of effective channels of distribution are often crucial factors for:
   a)cost advantage
   b) differential advantage
   c) political advantage

2) Distributors who do not take title but distribute goods on behalf of the international marketers are called:
   a) wholesalers
   b) retailers
   c) agents
   d) export merchants

3) The discretion that an international marketer has or wants in seeing that goods adequately get through to the customers is a function of:
   a) control
   b) market coverage
   c) cost

4) Warehousing, transportation and inventory management are aspects of:
   a) physical distributions
   b) channel control
   c) distribution policy

5) Effective distribution performance requires that the marketer and the intermediaries:
   a) adapt their roles
   b) display commitment to developing business
   c) exhibit lower levels of conflicts
   d) all of the above

Answers :1) b) 2) c) 3)a) 4) a) 5)d)

12.6 SUMMARY

International distribution and sales policy decision is one of the most complex aspect of international marketing management. Since distribution decisions bind the marketers with their channels for long-term, its implication in terms of costs, flexibility, control and reputation must be examined carefully before committing the decision. While an international marketer has the option of direct or indirect distribution of the goods in foreign markets, the physical distribution aspect needs systematic planning as this continues to be handled by intermediaries. Regular reports on foreign markets, Foreign visits, deployment of salesforce abroad and an in-depth analysis of physical distribution cost and obstacles help a firm to streamline its international distribution, offer superior customer service, and keep distribution cost within reasonable limits.

12.7 SELF - ASSESSMENT QUESTIONS

1) What should be the objective and the way in regard to management of the international distribution channels for a garment and leather products exporter who has made a serious commitment to develop its exports to Rs.500 crores in next 3 years from the present level of Rs.50 crores.

2) study a large exporter and examine its international distribution function. In what ways can the prevailing distribution arrangements be made more effective.

12.8 FUTURE READINGS

Philip R. Cateora, *International Marketing,* Irwin, 1983.

Subhash C .Jain . *International Marketing Management,* Kent, 1987

Subhash C. Jain, *Export Strategy,* Quorum, 1990.

Robert Douglas/Stuart, *Penetrating the International Market,* American Management Association, New York, 1965.

Brain Toyne and Peter G.P. Walters, *Global Marketing Management,* Allyn and Bacon, 1989.

R . Wayne Walvoord, *Ten Steps to Successful Exporting*, Amacom.

BLOCK V

INTERNATIONAL MARKET SELECTION AND SEGMENTATION

This last block of the course on international marketing deals with planning and control aspects.

Unit 13 deals with the issues and practices in international market selection.

Marketing Research precedes all strategic planning activities. Unit 14 explains the process of marketing research used for overseas markets.

The last unit deals with the strategic planning process issues in international planning and control. The planning and control sequence is also described.

UNIT 13
INTERNATIONAL MARKET SELECTION

Objectives

After going through this unit you should be able to :

- explain the factors influencing market selection decision
- describe the process for undertaking market selection and segmentation
- discuss the strategies adopted by the firm which undertaking the market selection decision

Structure

13.1 INTRODUCTION

In the preceding units we have talked about economic policies of India, Methodologies for undertaking political, cultural and economic analysis. All these analysis were essential for answering the question of which market to enter. In this unit the topic is carried further. Here an attempt has been made to answer questions—what should the company's corporate market portfolio look like in terms of number and types of market held and what is the process for coming to such answer ? Put more simply, the company must answer how many markets will it capture and what would their characteristics be like, and for a particular market it must answer whether it will build, abondon or divest that market. Thus, at Nestle headquarters similar question regarding India as country market must be answered. Moreover, they must at the headquarters and decide how many countries like India would they handle.

Activity 1

How does economic, political and cultural analysis help in the process of market selection ?

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13.2 FACTORS INFLUENCING INTERNATIONAL MARKET SELECTION AND SEGMENTATION

Every company while selecting a particular country as a market, attempts at achieving the best fit between the market requirements and the company's abilities in meeting these requirements. As a result, the factors that come into consideration, while planning the international market selection and segmentation, all the factors whether country market factors or company factors. These factors may be studie in greater detail as under.

Country Market Factors: The country market factors may again be subdivided under three heads viz:

- Product factors
- Marketing factors
- Market factors

Product Factors: The product characteristics and the transaction characteristic play a viatal role in market selection and segmentation process. The degree of specialisation, the value, the level of standardisation and the position in IPLC (International Product Life Cycle Curve) all influence the market selection process.

The degree of product specialisation will by itself eliminate several country market. Thus IBM wishing to market super computers would find small market because of the product specialisation and value factors. On the other hand. Nestle may choose virtually any country as its market.

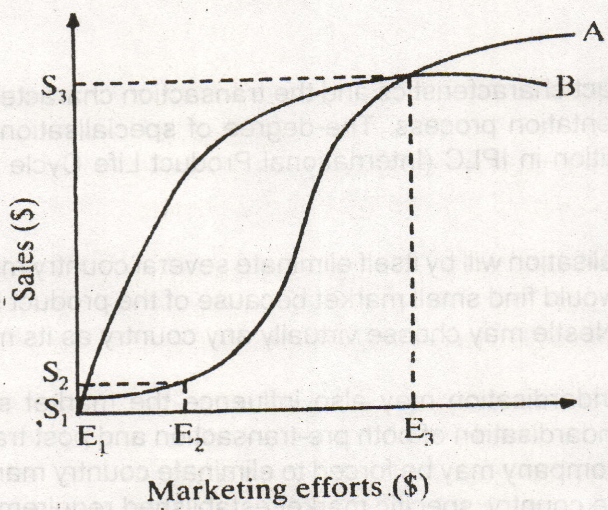
Similarly, the degree of standardisation may also influence the market selection process. Here standardisation refers to standardisation of both pre-transaction and post transaction measures like after sales service. Thus, a company may be forced to eliminate country markets either because the product does not met with the country, specific market established requirements or because it does have established after sales service. India in its recent Import-Export policy eliminated many companies manufacturing the essential life saving equipment by simply including a clause on after sales service.

The position of the product on the PLC (Product Life Cycle Curve) of any given market and on the IPLC also influences the market selection and segmentation process. Most companies infact enter international markets not by choice but by the fact that they find their domestic markets drying up. The desire to survive and grow, forces them to go into international markets. Even then, they must establish the position of the product on the PLC. Thus, product position on PLC influences the market selection process.

Market Factors: The cultural, political and economic analysis help in determining the nature of market for undertaking the market selection and segmentation process. Questions regarding the size, stability, growth potential, uncertainty and competition get answered. These questions help in deciding which markets to eliminate and which markets to concentrate upon. Consideration to such factors is necessary for aligning the market requirement with company abilities through a marketing strategy. Very often a company may have to choose between size and growth potential. The emphasis it lays on a particular variable through its strategy may entirely be an outcome of the company's abilities and goals.

Marketing Factors: The company being an economic entity is influenced by economic gains while selecting and segmenting a particular market. It considers the costs and the nature of the costs against profitability of the market or the sales while assessing the choice of the market. The costs is the outgrowth of product characteristics and market characteristics. How much a company spends on each of its four P's of the marketing mix depends upon these factors and the entry strategy adopted. The profitability is judged on the basis of sales made. Two most frequently viewed responses while undertaking cost benefit analysis are the concave sales response function and the S-shaped functions. In the concave sales response function the highest returns are noticed at the lower levels of marketing expenditure because of the shape of the sales function. This is essentially an outgrowth of the fact that the market is ripe for accepting the product. Here segmentation issues become predominant if maximum gains are to be cropped (reaped).

In case of the S-shaped sales function, it is assumed that a market has to be created therefore the highest returns are yielded just before the diminishing returns set in and after the marketing blocks are overcome.



In the exhibit above curve represents the concave sales function whereas curve A represents the S-shaped sales response. With every increase in marketing efforts (E) the sales response (S) can be gauged. The impact of the predicted sales response function on the choice of market is clear, however, it must be pointed out here that marketing efforts by themselves can be of different types therefore the response would be dependent upon the type of marketing effort planned. Thus, a company indulging in Mail Order business may observe lower communication costs as against a company wishing to set up its own facilities in the specified market. The analysis must, therefore, revolve around similar marketing efforts.

Activity 2

a) How can a new company with a technologically new product undertake a similar analysis for the purpose of market selection ?

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b) Determine whether the sales response function in the above case will be S-shaped or concave

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Company Factors: As the process of market selection involves a match between market factors and company factors. It becomes necessary to understand the company factors. The company factors may be divided under three heads—the management risk consciousness, the company goals, and the company's resources. The management's risk consciousness determines how the company will percieve various risks while undertaking country market analysis. Infact subjects like assessment of political risk depend directly on how the company perceives the risk. The company goals can also influence the market selection and segmentation process for they provide the foot hold for direction. The company's resources both financial and managerial influence the market selection process. In fact the financial strength of a company may force it to choose a mode of entry inspite of its not wanting to do so:Similarly, the management's export market experience may determine the choice of market even when the macro analysis may be against the choice.

The fit between the company factors and the country market factors broadly answer the question as to which country will be selected. But , although they represent the factors, every company must determine a process for market selection. This is the issue which is addressed in the **next head.** Section below.

13.3 THE PROCESS OF MARKET SELECTION

Every company is forced to address the question of which market to enter. Even after entering the markets a company must answer questions like, should it build, divest or abondon the market it has entered; how many such markets should it hold so as to maximize its economic benefits; how best to export to the chosen market.

To answer such questions every company must formulate procedures, policies and adopt strategies which allow it to keep the focus on both country market factors and company factors.

Since the process of market selection begins with an attempt to match the market requirement with the company's ability, the first step involves defining the market and the company's ability. This step is followed by identifying the section of the market to be captured or market segmentation and the final step involves determining the number of markets to be held.

Market Definition

When a company is forced with heterogeneous international market, it becomes imperative for the company to define the market. Market definition is usually one dimensional i.e., a company can define the market in terms of country characteristics or in terms of product characteristics. Such a definition must also include a time frame and a reference to competition. The time frame is essential not only from the point of performance measurement and control but also, for giving direction. Thus, a short term market definition would involve a tactical concern. Similarly, defining the competition would help in knowing precisely how the market is not being served, thus, it would pave way for the company's positioning. Since market definition preceeds segmentation it becomes necessary for it to be specific. Market definition must encompass both served and unserved markets. All this makes it necessary for a company to undertake the mechanical exercise of market definition.

Market Segmentation

Having defined the market it becomes necessary for the company to identify the relevant segment. This is known as market segmentation. The process of segmentation must clearly lay down the niche in terms of measurability, accessability, profitability and actionability.

Measurability

This involves identifying the market segment in terms of size, purchasing power and consumer behaviour. Since international markets are heterogenous the concept of measurablity has been flouted all too often, all the same some effective criteria must be developed by the company.

Accessability

How effectively can the company reach the identified segment must also be spell out. Here again, the existence of heterogenous markets makes the task more difficult .

Profitability

Since the firm is an economic entity, it must make sure that the identified segments are profitable. Here also the existence of heterogeneous market compound the task. Many new costs are added while adapting to the identified segments. Market tarriffs also influence the cost structure. The company must ensure that the size of the identified segment should be large enough to recover these costs.

Actionability

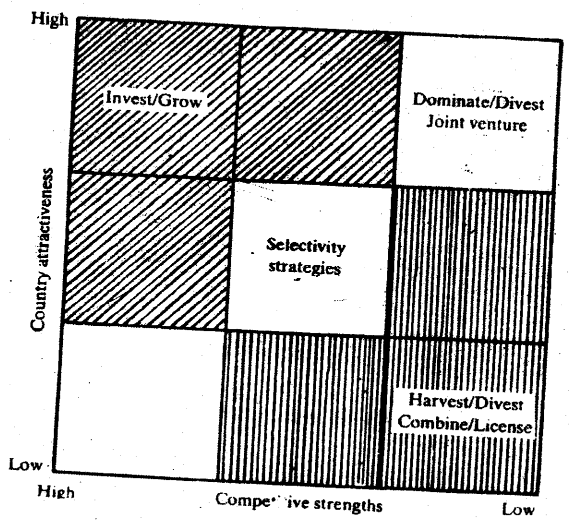
The last factor but, by no means the least, is actionability. Every identified segment should be capable of being captured through effective marketing programmes. If an identified segment cannot be tapped it is useless from the point of view of the company, however, profitable it may be.

The process of segmentation is the most crucial step for the survival of the firm. It is here that the company's resources are matched with the identified segment. Wrong choices may lead to the decline of the company. This step is more or less in line with the step on market definition. If the definition is based on product characteristics then the segments are identified using product indicators else the segments are identified using general market indicators. It must also be mentioned here that in international marketing the process of segmentation involves two level viz. (a) Country market level and (b) customer market level.

The next step in the process is usually associated with companies who have been in the export market for long. They must know which market to build, which to divest and which to abondon in order to optimize their return of investment. In other words they must define the direction of growth.

For this purpose most companies use the country attractiveness/competitive strength matrix as shown in the exhibit below.

Export Market Selection: Strategies and Assessment



Such a matrix helps in identifying invest/grow countries against Harvest/Divest computers.

However, before using such a matrix the company must ensure that

- contributing factors are identified
- their relationship and direction have been established
- weights have been allotted to such factors

It must also realise that such an analysis does not take into account

- the risk of international operation
- cost of entry into various countries and markets
- shared costs international marketing.

Keeping these facts in mind it becomes simple for a company to identify the market on the basis of growth, divesture. The various countries that can be identified on such a matrix would fall under any one of the following heads.

Invest/Grow Countries: Such countries call for a high level marketing commitment. They represent a large market size which can be tapped through investment in people and capital. Here it becomes necessary to match the products with the marketing requirements.

Harvest/Divest/Licence/Combine Countries: They represent the direct opposite of invest/grow countries. Because the country attractiveness is low competitive strength is also low, such a country must be harvested. A growth of market share in such a market would demand an equal increase in marketing effort wiping out the gains if any. Therefore, in such countries it makes more sense to sell out, to maintain a close watch of cash flow and to follow a pricing policy which will minimize the investment in such countries till the operations are abondoned.

Dominant/Divest Countries : Such countries rank high on country attractiveness but low on competitive strengths. Therefore, the choice rest in either of the alternatives, to sell out or to develop competitive strength to reap the opportunities offered by such a market. If one wants to reap such benefits then he must analyse the market more closely in terms of cash required to build the strength and potential profits. In such decision, time frame and corporate profitability become important issues.

Selectivity Countries

Such countries fall in the centre of the matrix representing the fact that they are neither highly attractive countries nor highly unattractive. They also represent in company terms, a position that can be built or broken. In such situation the company can either unite the market or build the market by introducing new product features, through technological upgradations.

Such an analysis helps a company competing in the global scene to use its limited resources more effectively. It knows which markets to divest and which to hold. Even within markets it answers questions regarding which segments to build. In the absence of such an analysis the corporate profitability would fall because of inclusion of losers in the market portfolio and the company's survival itself may come into question.

13.4 SOME STRATEGIES

While the above procedure broadly outlines the country selection method various strategies and approaches are available to the management which fit within this framework. Some of the approaches have been discussed as under.

Reactive vs Proactive Approach

When an exporter enters into foreign market on the basis of an enquiry received by him, he has resorted to the reactive approach.

Such an approach for market selection reflects absence of planning. The enquires in such cases result from earlier participation in international markets or through contacts established. This appraoch is frequently used by small and middle sized firms belonging to countries rated as attractive. The objective underlying such a mode of entry can normally be classified as 'short-term profits'. Thus, many exporters in India who procured enquiries through participation in international trade fairs reflected a passive entry mode or a reactive method of market selection.

In direct contrast to the above approach is the proactive approach where a formal process of market selections followed. In such an approach the international marketer has to develop an organisation with strong international marketing experience. Such an approach reflects marketing orientation. Japan reflects a country where proactive approach towards market selection has been actively followed.

While the above approach reflects the theoretical difference, in reality any firm would pursue both the modes of market selection.

Expansive vs Contractible Approach

If the firm decides to follow a proactive approach then it has two options for market selection. It can follow the expansive approach as against the contractible approach. The expansive approach presupposes a bench mark i.e. it either uses the home market or an established market as the base market. All other markets are screened on the basis of the similarities that exist. Thus, it reflects the experience based market selection approach. The clustering technique or the Nearest Neighbour technique are examples of the expansive approach. They resort to either environmental proximity or trade policy proximity for eliminating unwanted markets. The other technique which fall under the expansive approach is the temperature gradient approach where the countries are classified as moderate, hot or cold on the basis of seven variables. These variables are political stability, market opportunity, economic development and performance, cultural unity, legal barriers, physiographic barriers and geocultural distance.

As against the expansive approach is the contractible approach.

In the contractible approach the markets are first organised on the basis of (a) general market indicators and (b) specific product indicators and then screened against knock out factors.

Normally, this approach involves two steps for market screening, they are geographic segmentation and customer segmentation.

Geographic Segmentation

This step is again further sub-divided into two stages (a) information stage (b) decision stage. In the information stage, information regarding the general market characteristics and product characteristics is collected. Here it must be pointed out that the information collected will have to deal with ever changing variables. Therefore, some criteria for allowing for such change must also be taken into account.

The data so collected is further sub-divided under the heads of prohibitive market factors and prohibitive product factors.

A prohibitive product factor may be factor which contrast against general market factors. Therefore, such a market or product may be comfortably be knocked out. Similarly, a prohibitive market factor may be a barrier imposed by the government.

The markets which remain after such an analysis may be further knocked out on the basis of established knock out factor. This is known as the decision stage.

Customer Segmentation

The markets which remain after step are further petered out by a quantitive and qualititve analysis of demand and supply data.

On the demand side data regarding consumer behaviour for both consumer and industrial products must be collected. Similarly, on the supply side data pertaining to quantity produced, no. of producers, distribution system must be collected. This data is again matched with the market characteristics and product characteristics to arrive at the final choice of markets to be tapped.

Activity 3

Visit an exporter and determine the strategy followed by him for export market selection. Why does he follow that particular strategy ?

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13.5 SUMMARY

The discussion in this unit centres around market selection and segmentation issues. These issues are faced by a firm every time it wants to enter a new market. Therefore, they are very often evaluated as expansion of growth strategies.

The basic thrust of the unit is on answering two pertinent questions viz, which markets to enter and which direction to build. To answer these questions, the factor influencing international marketing selection and segmentation are discussed. Procedure has also been outlined for answering these questions. Some approaches commonly followed by international firms have also been discussed.

13.6 SELF-ASSESSMENT QUESTIONS

1) What are the factors influencing the market selection decision ? How do company factors modify the market factors ?

2) Market definition is one dimensional. Explain with help of marketing strategies adopted by a firm.

3) Using the contractible method select a market for a company marketing shoes internationally.

13.7 FURTHER READINGS

Gerald Albarum et al., *International Marketing and Export Management*, A Decision – Wesley Publishing Company, 1989.

Warren J. Keegan, *International Marketing*, Second Edition, Prentice Hall of India Private Ltd.

Cateora and Hess, *International Marketing*, Third Edition, Richard D. Irwin, Inc.

UNIT14 INTERNATIONAL MARKETING RESEARCH

Objectives

After going through this unit you should be able to:

- explain the scope of International Marketing Research
- describe the procedure for undertaking International Marketing Research
- describe the techniques available for International Marketing Research
- plan a field research
- describe the techniques available for interview
- analyse the data collected
- prepare a project report.

Structure

14.1 INTRODUCTION

Marketing research can be defined as the systematic study and evaluation of all factors bearing on any business operation relative to marketing of goods and service Logically, marketing research begins before production starts—in fact, even before the factory is built or the plant is set up, and continues as long as the business remains in operation. Although marketing research is invaluable in the solution of business and marketing problems, it is by no means a substitute for sound business judgement based on knowledge, experience or even intutition. It is an aid and a guide to the managerial decision-making process. It eliminates or reduces guess work by providing facts and throwing light on the areas of enquiry. Objectivity is at the heart of marketing research.

There is no difference between the fundamentals of international and domestic marketing research. The research process is basically the same wherever it is applied. Generally, the tools and techniques in foreign and domestic marketing research remain more or less the same but the areas of its application are divergent, creating a variety of operational problems. The environmental factors, for example, that are relevant for marketing may vary from country to country or specific information needed in one country may not be required in another. Within a foreign environment, the changing emphasis on the kinds of information needed, the research tools and techniques required to collect the information and the difficulty in implementing the research process constitute the real problems in international marketing research.

14.2 THE SCOPE OF INTERNATIONAL MARKETING RESEARCH

The scope of international marketing research covers a wide range of marketing and environmental factors that can affect a product's in a foreign market. These factors can be broadly classified as:

1) Socio-economic and political profile of the country
2) Size and trend of the market
3) Structure of competition
4) Rules and regulations

Socio-economic and Political Profile

Information under this category includes a wide variety of data on factors like: size of the population; national income and principal sources; percapita income; standard of living; cultural attributes; geographic and climatic conditions; political system and policy etc.

It is also necessary to find out political and economic relations of the country with other countries, including the country of the exporting company, and the country's political status among the international trading community.

Size and Trend of the Market

Several factors enter into the analysis of the size and growth trend of the market for specific product groups. These include: data on indigenous production and product-mix; direction and sources of export and import; size and trend of foreign trade; proportion of national consumption of the product supplied by the domestic industry; price behaviour of market; future growth prospects, etc.

Structure of Competition

The study of competitive structure of the market is very important for an intending exporter. The strength of competition is a key factor that must be taken into account before an exporter decides to enter a foreign market. The competition may come from the domestic supplies as well as from other exporter into the same market. Competition may come not only from the similar products but also from substitute products. For example, for a coffee exporter, other coffer suppliers would be direct competitors and tea or cocoa suppliers would be indirect competitors.

In studying the strength and structure of competition, a number of specific factors are to be taken into consideration, such as:

- What are the competitors' shares of the market ?
- Is the market dominated by a small group of large-scale suppliers or a large number of small suppliers ?
- What are the marketing strategies of the competitors, including product range, pricing strategy, distribution channels, promotional techniques and the like ?
- What are infrastructural and institutional facilities available in the market and their cost; for instance, transportation, warehousing, finance, insurance etc.
- What are the commercial and business practices, norms, ethical standards etc.

There and many more similar factors are required to be considered in order to chalk out a competitive profile and the market, highlighting the strengths and weaknesses of competitions.

Rules and Regulations

Rules and regulations governing a foreign market are many and diverse. The rules could be broadly divided into two areas, namely (a) rules governing entry conditions of foreign goods into the country and (b) rules governing internal business practices.

All countries regulate import of foreign goods by various means such as, impositon of complete ban or of quantitative quotas on imports; tariff barriers; non-tariff barriers of a wide variety; currency and licencing restrictions; internal tax structure ; product specifications and standards; health and safety regulations, promotional methods; branding, trademark and patent regulations; and various kinds of restrictions on business relationships and dealings between the exporting and importing organisations. It is important to examine the impact and implications of these factors on the conduct of export business.

Following is a checklist of information required for assessing market potential in a foreign country:

1) **Socio-economic and Political Profile**
   - Population—size, growth, compostition.
   - Gross National Product
   - Per Capita Income
   - Balance of Payments
   - Industrial Structure
   - Cultural Atributes
   - Climatic Conditions
   - Political System

2) **Size and Trend of the Market**
   - Indigenous production, volume and growth
   - Direction and composition of foreign trade

- Consumption patterns and trends
- Market Segmentation pattern
- Demand trends

3) **Structure of Competition**
- Direct and indirect competition
- Nature of competition
- Competitive shares of the market
- Standards and specifications of competitive products
- Competitive marketing strategies
- Business and commercial practices,
- Trademarks and patents

4) **Rules and Regulations**
- Market entry regulations
- Tariff and non-tariff barriers
- Foreign exchange regulations
- Internal taxes
- Healths and safety regulations
- Trademarks and patents regulations
- Regulations on marketing practices and promotional methods.

In addition to collection and analysis of information on markets and marketing conditions obtaining in foreign countries, it is necessary to conduct research on consumer characteristics and consumption habits of people; product preferences in terms of attributes like size, shape, style, colour, taste, materials, performance, packaging and the like. Marketing practices with regard to sales and distribution channels, pricing mechanism, advertising and sales promotion after-sales services etc. are an important area of research investigation.

The foregoing are only illustrative of the various areas of applications of international marketing research and by no means are exhaustive. Marketing research techniques could be applied in any areas of business on which information is required to plan and conduct international marketing functions. Before conducting research, it is therefore necessary to carefully define the specific information need in light of marketing problems required to be solved or decisions to be made. It is therefore of utmost importance that appropriate procedures and methodologies are followed by the researcher in planning and conducting international marketing research.

14.3 PROCEDURES OF INTERNATIONAL MARKETING REASEARCH

The following are the basic steps in planning international marketing research:

1) Definition of the objectives of research in light of marketing problem to be investigated and decisions to be made.

2) Determining the information required to throw light on the problem to be solved.
3) Determining the methodologies and planning the collection of information
4) Actual collection of information from pre-determined sources.
5) Analysis and interpretation of information.
6) Preparation of the report.

Defining Research Objectives

The first step in starting the process of international marketing research is to define the objectives. The clear definition of objectives helps the researcher to identify the appropriate sources of information and select the suitable methodologies for collection of information.

Determining Information Required

The information required in the light of research objectives has to be listed out for planning of data collection. For example, if one of the objectives is to find out the market potential for a new product, it is necessary to spell out the specific kinds of information that will throw light on market potential, so that research can be planned to collect the required information.

Determining Methodologies

For collection of different kinds of information from various sources, different methodologies are used in marketing research. For example, the method of desk research is used to collect information from secondary sources and survey research is used to collect information from secondary sources and survey research is used to collect data from the primary sources. In desk research various kinds of statistical or non-statistical techniques are used for compilation and analysis of data. Similarly, in survey research various techniques are used for generating quantitative and qualitative data on the objectives of the research study. The reliability and validity of the data is closely related to the sources and methodologies used for the survey.

Actual Collection of Information

Actual collection of data involves appropriate planning of fieldwork for contacting respondents or other sources for the survey. Respondent contact can be made either personally or via mail or telephone, depending on the nature of research. It is very crucial stage in conducting survey research, for on the effective conduct of field work will depend the success of the survey.

Analysis and Interpretation

The field data collected via various methods are to be properly edited, analysed and interpreted in the light of the research objectives initially set out. It is important that analysis and interpretation is done in an objective manner in order to avoid the possibility of bias or any kind of subjectivity.

Preparation of the Report

The information and data collected through research is, after analysis, presented in the form of a report. The report usually contains not only the findings of the research but also the comments and recommendations of the researcher.

14.4 TECHNIQUES OF INTERNATIONAL MARKETING RESEARCH

The techniques of conducting international marketing research can be divide into two broad categories which are complementary in practice. These are : Desk Research and Survey Research (which is also called sample survey, field research etc.).

Desk Research

Desk research basically involves collection of information from documentary sources or other published and unpublished sources. In other words, information and data already exist in published or unpublished form. Through desk research the sources of such data are searched and relevant documents, publications etc, are collected. This stage of searching for sources of published or what is also called secondary data, is also referred to as bibliography research or library research. Search for the sources of secondary data or the collection of documents etc. is only the preliminary part of desk research . The actual desk research involves compilation processing and analysis of secondary data in accordance with the objectives of research.

In international marketing research, desk research plays a very important role. In respect of most of the countries, a good amount of general economic, political and market information is available from secondary sources. Information on the countries industrial and economic profile, government policies and regulations, size, composition and destination of foreign trade and host of other general information is often available for desk research. Very often only desk research may serve the purpose when limited and general types of information is required. Desk research also provides background information for selection of the most promising foreign markets for in-depth investigation. It can also point out specific factors that should be carefully looked into. Desk research therefore could be used for general and limited information on foreign markets as well as the preliminary step for effective planning and conduct of survey research in foreign countries.

Sources of Data

The key to successful desk research is the knowledge of how to find out relevant sources of required data and how to collect and make use of them. There could be numerous specific sources of information but it is not possible nor necessary to tap all such sources. It is therefore necessary to classify sources according to their relative importance. The principal sources of information can be classified under specific categories like:

a) Government sources
b) Semi-government sources
c) Private sources, and
d) International sources

Government Sources

All governments in all countries generate a wide variety of information and data that are useful and relevant to marketing. Information provided by governments covers wide areas like population economy, policies, programmes, industries, institutions, rules and regulations etc. and published in the forms of reports, documents, journals, notifications etc. The governments in different countries are the largest generators of information and data useful for international marketing.

Semi-government Sources

In many countries there are specialised semi-government agencies or institutions charged with specific tasks such as monitoring of consumption trend, foreign trade, industrial development, income distribution, purchasing power of people, health, education etc.These institutions usually carry out regular studies primarily to help and guide government policy-making. The reports and publications of these institutions contain valuable information relevant for marketing.

Private Sources

There are research institutions, publishing houses, banking and financial institutions, chambers of commerce, trade associations and a host of other similar organisations which collect, process and disseminate different kinds of information in their respective areas of concern which could be relevant to international marketing.

International Sources

International organisations within and outside the UN system publish a wealth of statistical data and information relating to markets. The important ones among these organisations are: United Nations; Food and Agricultural Organisations (FAO); International Labour Organisation (ILO); United Nations Conference on Trade and Development (UNCTAD); UN Economic Commissions; International Monetary Funds (IMF); Organisation for Economic Cooperation and Development (OECD); International Trade Centre (ITC) and a number of others.

Many developed countries have set up 'Import Promotion Office' (IPO) to assist developing countries to export their goods to the developed country markets. Valuable information on foreign markets is available from the IPOs of different countries.

The diplomatic missions located in the exporter's country can often provide a great deal of information about their respective countries and guide the researcher on other sources of information. A plethora of individual sources of secondry information, as described above, are available at the national and international levels for desk research. A desk researcher has to be selective in choosing the appropriate material for research—otherwise he might get lost in the wilderness of irrelevant data which he goes not really need. It is therefore important that the researcher evaluates the sources in term of his particular need. The following criteria could be used for evaluating sources of **secondary data:**

Coverage: Is the source likely to cover the subject of research comprehensively and precisely ?

Level : Is the level of information too high, too low or just right to the purpose of research ?

Emphasis: Does the material focus on the most relevant aspects of the subject ?

Timeliness: Is the material up-to-date or outdated for the purpose of research ?

Accuracy: How accurate and reliable the information is ? Who originally collected it and for what purpose ?

Survey Research

The main difference between desk research and survey research is that is case of desk research the data are already available to research whereas in case of survey research data are generated in course of doing the research. Most of the desk research on foreign market can be done in the exporter's country itself but survey research has to be carried out within the potential markets abroad through direct contact with people there. Often desk research provides the general background or framework for planning and conducting survey research for collection of primary information specific to the exporter's needs.

14.5 PLANNING OF SURVEY RESEARCH

Before survey research or field research is undertaken in a foreign country, a detailed plan should be prepared covering the following points:

a) The scope of research

b) Definition of universe

c) Methods of Sample Selection

d) Techniques of interviewing

e) Analysis of field data

f) Preparation of research report

Scope of Research

To begin with, the scope of research has to be clearly described covering the purpose of research, information to be collected and from whom, geographic areas to be covered and the like. The scope provides the framework within which research will be conducted in the foreign market.

Definition of Universe

It spells out the "universe" or 'population' selected for the survey. For example, survey may be carried out among the end-users/consumers, importers, distributions, retailers, industrial buyers, representatives of chambers, trade associations, government departments and agencies or any other groups of people concerned with the subject-matter of research or who might provide information, opinions or views that would be useful for the purpose of research. The 'universe' is the total of a particular group of people or organisations from which sample is taken for survey.

Methods of Sample Selection

When doing survey research, it is usually not possible to interview every user or importer, distributor etc, of a company's product. There must therefore be some methods of selecting respondents. This is done by sampling. The ususal practice is to draw smaller samples from the relevant 'universe' selected for the survey. The samples should be representative of the entire 'universe' chosen for research, both in terms of their characteristics as well as geographic locations.

There are different types of samples. The three basic types normally used in market research are:

- Random sampling
- Quota sampling
- Cluster sampling

Random Sampling method ensures that every 'unit' or 'member' of the universe has an equal chance of being included in the sample. If properly drawn, the random sample provides most accurate statistical results.

Quota Sampling is based on selection of 'unit' in the same proportions of characteristics as they exist in the universe. The characteristics used as 'quota' are pre-determined and their proportions in the 'universe' must be known in advance for drawing quota sample.

Cluster Sampling involves dividing a geographic area (say, a town or district) into smaller areas (wards or blocks). From these smaller areas, a sample of areas is drawn at random and then every relevant 'unit' within the sample areas are surveyed.

In international marketing research it often becomes necessary to modify sampling techniques to suit varying field conditions. However, it should be ensured that the survey findings do not get unduly biased or distorted due to wrong application of sampling techniques.

14.6 TECHNIQUES OF INTERVIEWING

A variety of techniques are used for gathering first-hand information in the field. Different techniques are useful for different kinds of investigations—some of them are quite complicated, costly and time-consuming, such as psychological and projective techniques or techniques of product testing. However, there are three basic techniques which are most commonly used in international market surveys. These are:

- Personal interview
- Telephone interview
- Mail or postal survey

Personal Interview

The face-to-face personal interview is the most effective and reliable method of collecting information at the consumer as well as industrial levels of market research. For personal interview, the interviewee or the respondent is selected using one of the sampling methods described above.

The interview may be conducted either in a structured, semi-structured or unstructured manner. The structured interview is conducted strictly in accordance with the structured questionnaire mostly using closed-end questions. The questions are asked in the same language and the same sequence and appropriate answers are marked/ticked as pre-coded on the questionnaire or recorded verbatim in case of open-ended questions. Unstructured interview allows for a more free exchange between the interviewer and the respondent, without sticking to a set list of questions as in the case of structured interview. The semi-structured interview is a combination of the two types mentioned above.

Telephone Interview

The telephone interview serves limited but very useful purpose. It is limited to only those who could be contacted over the telephone and is more suitable for asking a few short and simple questions. It is quick and less time consuming. It is often used to identify the right kind of respondent for subsequent personal interview or to contact busy executives for quick interviews.

Mail Survey

The mail or postal survey can be conducted in a foreign market from the researcher's home country. The mailing list of respondents (like importers) can be prepared and questionnaires sent by mail for filling in and returning by the respondents. Although the method is least expensive, it is most unreliable and the response is usually very low.

14.7 ANALYSIS OF FIELD DATA

After the field survey is completed the researcher faces a mass of data and information. In the raw or unprocessed form, these data do not give a clear picture of the market. It is therefore necessary for the researcher to sort out the field data and organise them in an orderly and systematic fashion, in the context of research objectives. The following processes are involved in preparing data for analysis:

1) **Editing** involves selecting data which are relevant and putting them into consistent form. It is also necessary to check the data for accuracy and reliability to check that the information is free from bias.

2) **Organising** of research data is to arrange them according to the areas of interest and putting them into workable format.

3) **Classifying** involves dividing the information into meaningful categories.

4) **Tabulating** involves counting of responses/replies to survey questions according to the categories selected or by characteristics of the respondents or making non-tabulations to establish correlation between responses to two or more questions. New information can be 'generated' by non-tabulations of interconnected questions.

Various statistical techniques are used for analysis or tabulated data in accordance with the research objectives as well as to focus on information need for specific decision-making purpose.

14.8 PREPARATION OF RESEARCH REPORT

The final stage of survey research in international markets is to write the report for the 'user' of the survey findings. The content, quality and presentation of the report determine its effectiveness in practical use. A poorly written report can cancel out even the best research. A research report is usually written for use of the management of exporting companies, who are often non-technical people. One should therefore avoid technical language in presenting the findings of research. The language of the report should be clear, unambiguous and to the point. Apart from the style of writing, the report should be presented in a proper sequence for facilitating reading and comprehension. The general format and layout may consist of the following sections:

- The title page
- The table of contents
- Introduction
- Technical note(describing the research methodologies etc.)
- An executive survey of findings
- Conclusions and recommendations
- List of statistical tables, charts etc. (summary of tables may appear in the main body of the report)
- Appendices (including copies of the questionnaires forms etc. used for survey)
- References

The following checklist provides guidelines for writing of research report:

- Write the report keeping the reader in mind, his need for information, his knowledge and experience
- Keep the report short and concise as far as possible and avoid irrelevant information.
- Present the facts in a simple and easily understandable style, avoiding technical jargon
- Use summarised tables/charts in the body of the report and the detailed statistical data in the annexures.
- Put the different aspects of the research in appropriate sequence to facilitate easy reading and comprehension.

14.9 SUMMARY

In this unit an attempt has been made to acquaint you with the problem of International Marketing Research and Analysis. Although, several techniques and methods are available for undertaking international market research, this unit reflects the broad framework for undertaking international marketing research.

Since, marketing research in undertaken with a view of minimising business risk, a cost/benefit analysis of the decision is in order. Such in analysis raises issues like desk research vs. field research, planning or survey research and techniques of interviewing, all of which have been discussed in the unit.

14.10 SELF-ASSESSMENT QUESTIONS

1) What is the framework of a marketing research decision ?

2) Why should an international marketing choose between desk research and field research or a combination of both ? Explain using an example.

3) What are the techniques available for interviewing ? what can be potential problems faced by a field researcher in international marketing research.

14.11 FURTHER READINGS

Cateora and Hess, *International Marketing*, Third Edition, Richard D. Irwin, Inc.

Warren J. Keegan, *International Marketing*, Second Edition, Prentice Hall of India Private Ltd.

Gerald Albarum et al., *International Marketing and Export Management, A Decision*—Wesley Publishing Company, 1989.

UNIT15
INTERNATIONAL MARKETING PLANNING AND CONTROL

Objectives

After going through this unit you should be able to :

- discuss the issues in international marketing planning
- develop a framework for international planning
- utilise the data generated through checklists to develop your marketing plan
- describe the issues to be considered in developing an international marketing control system
- explain the sequence of control process used to control overseas marketing operations.

Structure

15.1 INTRODUCTION

A multinational corporation manufacturing and marketing a consumer durable product is faced with a problem.

The CEO of the corporation has portrayed the following scenario.

The corporation has just entered into the French Canadian market, investing heavily in developing the manufacturing facilities. Since, the idea was to gain economies of scale, the corporation resorted to penetration pricing.

It was at this time that the country manager 'France' revealed to the CEO that the French market share of 80% was being rapidly eroded by competition. Competition, according to the country manager was eating into the market share from two directions. On the one side, the substitute product industry had developed rapidly and on the other side, the only competitor was manufacturing a differentiated product had stepped up his advertising expenditure.

The country manager wants to introduce a substitute product and undertake an aggressive promotion programme to combat competition on both sides. He believes that he can muster the required resources within the country. The question facing the CEO is whether to sanction the country managers request.

Activity 1

What is the problem faced by the CEO ?

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Can you develop an alternative marketing plan for the country manager 'France'

From the above case let it becomes clear that every organisation needs to direct and co-ordinate its marketing effort. For undertaking this, it must frame a marketing plan. While the task of developing a domestic marketing plan in itself is complex it gets further compounded when a firm gets into international operation. For international marketing entails a multi country scenario necessitating marketing planning at two levels viz. country level and corporate level. Having developed the marketing plan the corporation must again implement them again at two levels i.e., at country level and at the corporation level. For this it must define an organisational structure and develop control system. These are the issues which have been addressed in this last unit of the course.

15.2 DEVELOPING AN INTERNATIONAL MARKETING PLAN

As already pointed out earlier the marketing plan must be developed at two levels i.e., at the country level and the corporation level.

At the country level the marketing plan resembles any domestic marketing plan. In the sense that it lays down the strengths, weaknesses of the organisation and opportunities and threats faced by the organisation. It proceeds to define the organisation objective alongwith the assumptions. Having undertaken the above steps it lays down the brod action plan, the organisation structure and control system necessary for accomplishing the above plan.

The international marketing plan is more than a mere integration of the country plans, for it seeks to direct and co-ordinate the activities of the corporation on a globle basis and at a country levels. These vaiables are :

- Knowledge of the market
- Knowledge of the product
- Knowledge of the marketing systems

The corporation must decide how will it obtain information about all these variables on a global and country basis. This information will then be formalised into a marketing plan to provide guidance to each country manager.

15.3 ISSUES IN FRAMING THE MULTINATIONAL MARKETING PLAN

One of the issues most commonly faced in framing the multinational marketing plan is with regard to the strategy of international marketing plan. Every organisation must address this issue. It must decide whether to follow a standardized or multidomestic marketing approach or a blend of the two approaches. A brief description on all the three approaches has been presented below.

Standardised Approach

This refers to standardisation in four major decision areas of marketing viz, product decision, price decision, promotion decision and the distribution decision for achieving the competitive and sales objectives of the corporation. The organisation through policy directives can achieve this. The underlying premise of this strategy recognizes the globalisation of market. Theoder Levitt in his article on 'The Globalisation of Market' points out that because of technological and communication revolution consumers would know about the quality products that exists and seek to procure them through format or informal channels. Once this asspumtionis accepted it become possible for an organisation to encash the advantages of standardisation which include cost saving in all areas right from manufacturing (because of longer production runs and learning curve effect) to promotion (because the message becomes common as demonstrated by Exxon put a tiger in your tank). The corporation also has the advantage of maintaining the international customer, for wherever he goes in the world a similar product will be available, a class which is growing as demonstrated by the increase in international air traffic. However, this approach is not free from limitation. Although throretically a corporation may demand standardisation in practise, it is not always possible because of heterogenety of the markets. Thus, dumping laws and retail price maintenance laws may prevent standardisation of price variable, non-availability of media vehicles may prevent standardisation of promotion variable and entry regulations by various countries may prevent standardisation of distribution variables. This approach has however found many advocates within practising managers. They attempt in standardising variables partially. Thus, in case of promotion variables the messages are unified, very often even the movies shot as standardised as demonstrated by oglivy and Mather. The brand variable is also standardised. Similarly in case of products certain major parts are standardised so that they can take advantage of cost savings and at the same time take into account the heterogeneous characteristics of the market.

Multi Domestic Approach

The multi domestic approach to market planning emanates on the assumption that markets are heterogeneous and therefore the marketing mix decision in each country should specifically cater to the needs of the country. This approach by some advocators has been rated as the true marketing approach. This approach however, fails to explain the existence of the multinational gaints like Coca Cola. In reality it must be accepted that markets are hetergeneous and the same time standardisation is possible in many decision areas. The existence of common brand names like IBM, Levis etc. proves this. But even these organisation do cater to the specific needs of the heterogeneous markets.

Activity 2

What makes it possible for a company like Levis or Benetton to market the product globally although traditionally accepted as belonging to the domain of multi-domestic approach ?

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Once the plan is formulated it must be implemented.

15.4 ORGANISATION FOR INTERNATIONAL MARKETING

Once the plan has been drafted it becomes necessary to implement it. For this resources have to be deployed and efforts have to be directed. This is possible, only when a structural frame work exists for allocating the requisite authority and responsibility. This structure should be capable of meeting over varying challenges of international marketing function. It should be capable also of responding to different market characteristics. It is perhaps for these reasons that international marketing organisation are characterised by their flexibility and restructuring.

For achieving this it becomes necessary to develop a plan for an organisation structure. Such a plans usually undertaken at the corporate level and is long run in nature. While, planning a structure for international marketing normally the following parameters are considered.

- Company growth and dynamic nature.
- Geographical distance
- Governmental regulations
- Level of policy decision
- Length of chain of command
- Degree of control
- Degree of involvement in the marketing functions

These parameters along with resources available are aligned with objectives on a production, a function or a geographical basis. The basis also takes into account the method of decision making.

Historically the organisational structures were designed around the production function. However, today it is the profit and marketing functions which give rise to the organisational structure. Most of the existing organisations can be identified in one of the three categories, centralised, decentralised or regionalised.

15.5 FRAMEWORK FOR INTERNATIONAL MARKETING PLANNING

As noted earlier planning in the international context is a more difficult process, partly because there are many unknowns in this case. It encompasses all the steps used in the process for any typical marketing plan. To reiterate, any marketing plan consists of

a) Diagnosis of the situation

b) Identification of corporate strengths and weaknesses as well as environmental opportunities, and threats.

c) Definition of the objectives
d) Forecasted estimates of sales, costs, profits
e) Designing an apporpriate marketing program based on objectives and estimates
f) Deciding on the relevant appropriations for the plan

Definition of the objectives is considered by some, as the first step in the marketing planning process. Others feel that objectives cannot be decided without a situation and SWOT analysis which would generate information to enable objective definition what is however, important to bear in mind is that since marketing planning is an iterative process, it requires monitoring, revaluation and adaptation of objectives and strategy in the light of constantly changing marketing environment

Strategic planning in the international marketing context comprises of the following decision areas.

The commitment decision	:	Considering the resource position of the firm and its home market situation, does the international market offer an attractive opportunity worth striving for ?
Area of operation decision	:	Which country/countries present the most attractive alternative/s as potential target markets ?
Entry mode and Operations decision	:	what could be most effective strategy for entering the international markets and conducting the marketing operations?
Marketing Organisation decision	:	what is the best possible organisational arrangement of facilities and personnel to enable the firm to have local flexibility and corporate control ?
Marketing mix decision	:	which possible combination of the marketing mix elements would be most suitable for the given foreign market environment ?

All the above decisions are interlinked and interdependent. Combining these decision areas with the general planning process steps generates an international marketing planning matrix given in fig. 1 below. Each cell in the matrix represents step in the iterative process of the overall strategic planning function. Some of them (as you will note) are part of the review and reassessment process that must be carried on till a final plan emerges.

Fig. 1 International Marketing Planning Matrix
Steps in the Planning Process

International Planning Decisions	Diagnosis of the Situation	SWOT Analysis	Objectives	Sales/Cost Profit forecasts	Mktg. Program	Budget
A) Commitment decision						
B) Area of Operation decision						
C) Entry mode and Operation decision						
D) Marketing Organisation						
E) Marketing Mix						

The matrix given above provides an overall framework for planning. Detailed marketing information would need to be generated and analysed in order to fill in the matrix and evolve the marketing plan relevant to a given international situation . Given below are the checklists of information pertaining to each decision area, that must be generated/utilised to evolve the marketing plan. The lists are not exhaustive, they merely illustrate the type of information that forms the data basic for such a plan.

The Commitment Decision – Checklist

The commitment decision is based upon valid and defensible reasons for entering international markets. The reasons must include an analysis of corporate objectives, resources philosophy and the sources of differential advantages sought in going international. Following are the factors that need to be considered while making the **commitment decision.**

A) Reasons for entering international markets

- Saturation in domestic markets
- Greater profitability
- Preempting competition
- Excess liquidity
- As an alternative growth strategy
- Better utilisation of current resources and differential advantage both
- Excess or obsolescent inventory
- Securing sources of supply

B) Own resources, strength and weaknesses

- Domestic operations under control
- Differential advantages
- Image for high quality
- Cost advantages
- Manpower skills
- Finances
- Patents
- Marketing expertise

C) Own objectives and philosophy

- Growth objectives
- Growth strategies followed (e.g. growth through market expansion or product development, in current products or unrelated products, growth through reinvested earnings, attitude towards mergers and acquisitions)
- Profitability, required return on investment
- Attitude and preferences regarding risk
- Liquidity preferences
- Market share desired

D) Country preference

- Developed, industrialised countries
- Developing countries
- Eastern European countries

Definition of the above variables would help finalising the commitment decision, and enable determination of the type and extent of commitment in a given area of operation.

The Area of Operation Decision – Checklist

Once in the context of the commitment decision the type of country preferred has been decided, the specific country alternatives must be evaluated. Unless specific reasons compel choice of a particular country, several alternatives with in a given type must be analysed with respect to both to international and the local marketing environment . the factors that must be considered for this analysis may include

A) International environment

- Relations between domestic country and country choosen (say country X)
- Tariffs and non-tariff barriers in country X
- Currency stability and currency control
- Infrastructural costs (e.g. transportation, communication)
- Counter trade requirement

B) Local marketing environment

- Government stability
- Economic development, growth rate, developmental/policies
- Inflation
- Government controls and regulations
- Local business culture
- Philosophy towards cooperation, competition
- Business ethics
- Respect for contracts
- Cartelization

Marketing infrastructure

- Availability and reliability of marketing data, research skills
- Literacy
- Media
- Ad agencies
- Distributive network facilities
- Availability and reliability of communication system
- Transportation availability and costs

C) Marketing structure and demand
- Consumption pattern and buyer behaviour

D) Fianacial needs and analysis
Short Term
- Investment Needs
- Sales Volume Forescast
- Profitability estimate, return on investment

Long Term
- Taxation
- Currency stability and convertibility
- Profitability remittance and repatriation prospects

E) Overall suitability
- Country X fit in a regional approach
- Country X as part of a global market portfolio

Entry Mode and Operations Decision – Checklist

This checklist helps determine the appropriate mode of market entry, the first part of the international operations plan. It is essential that the plan incorporate the general assumptions and specific forecasts on which it is based on that it be prepared in written form especially if it is a first or "initial" plan.

A) Objectives

- Sales volume expected during initial period; market share
- Profitability, return on investment (note: the larger the scale of operations, the more likely negative profits during a buildup period)
- Permissible risk exposure
- Going in for a fast profit and then leave vs. aiming for a lasting commitment
- Philosophy of ownership vs. joint ventures, etc.
- Data feedback for future decisions

  Test marketing or other marketing research, acquisition of data to determine desirability and form of long-term commitment – all the while keeping costs of data generation and analysis in mind.
- Justification of local objectives in terms of overall company objectives

B) International environment

- See checklist A of Area of operations decision

C) Local marketing environment
- See checklist B of Area of operations decision

- Local government view of our kind of production
- Could we—and should we—obtain favoured treatment from Government?

D) Market structure and demand analysis

- See checklist B of Area of operation decision
- Detailed industry and company sales forecast

E) Resources

- Expected sources of differential advantage (see cheeklist B of Commitment decision)
- Local validity of own patents and trademarks
- Availability of company personnel with prior local experience
- Tasks to be performed by company, tasks to be contracted out; marketing research, advertising, distribution may all be contracted out, if desired, given sufficient local infrastructure.
- Available sources of supply relative to expected sales volume, supply from headquarters or from other subsidiaries or from outside firms. Adequacy of sources and their ability to adjust to possible fluctuations in demand

F) Mode of market entry

- Direct exports from home base
- Indirect exports through home country channels
- Direct exports through outside distribution channels
- Direct exports and sales through local sales brance
- Licensing, franchising, technology transfer
- Foreign direct investment (FDH) in joint venture
- FDI in wholly-owned assembly or integrated production facilities.

Marketing Mix Strategy—Checklist

Assuming the international commitment decision has been made, the country or countries selected, and the most likely mode of entry determined, this checklist enumerates the strategic aspects in the overall marketing plan. These include the underlying strategic concept, rationale, general thrust, and consideration of appropriate and matching marketing mix variables.

A) Strategy

- Overall concept of our international marketing strategy. Strategy should be explicitly related to local objectives and to our notion of differential advantage. Include definition of market niche, if nichemanship is sought.
- Rationale for contemplated differentiation from domestic strategy, if any. Such deviations are often desirable or even inevitable. As they do lessen synergy their justification should, however, be made explicit.

- Homogenization or segmentation of local demand

B) Marketing mix implication of strategy

- Product; opinions, models to be marketed, modifications for local market, if any, product simplification, invention
- Price: skimming vs. penetration. Price relative to current and potential competition; price relative to our policies elsewhere. If price very high compared to domestic due to tarrifs, freight, high distributor margins, etc. justify belief that it will be accepted locally. If planned local price is very low, contemplate side –effects on company operations elsewhere.
- Promotion and intelligence: budget, theme, media, timing. If major resources to be committed, include plan for measurement of promotional effectiveness. Labelling, consumer information. Feedback from the market place, marketing research
- Distribution channels
- Mode of market entry,
- Functions to be performed by channel members or distributors, Exclusive vs. selective distribution
- Margins, promotional allowances (if any)
- Short term vs. long-term commitments. Note possible need for future flexibility
- Post-transaction service
- Service and warranty system
- Spare parts : locally manufactured or procured vs. imported from home country or subsidiary
- Handling of customer complaints
- Networking and trust: plan for the build-up of good will and customer confidence. The larger the operations and the longer its time perspective the more important is trust

International Marketing Organisation – Checklist

To bring the plan into fruition requires adequate marketing organisation. This Check list includes among organisational factors the type and nature of coordination between headquarters and international units, scheduling, performance evaluation (audit), and preview of subsequent planning periods.

A) Head quarters service and coordination

- Manpower allocation at headquarters (HQ) and overseas
- Organisational adjustments at HQ, if any
- Indentification of areas of HQ direction, assistance and consultation. Areas of local autonomy
- Reporting arrangements
- Pricing and other policies for intra-company transfers

B) Schedules

- Step-by-step timing of activities and the attainment of sub-targets. PERT or flow diagram techniques may be helpful here
- Budgeting

- Master budget
- Projected profit and loss statements for each reporting period
- Proforma balance sheets for each reporting period
- Cash flow projections in each reporting period

C) Action potential at the end of the planning period

This is an advance audit of operational performance, assuming full realization of the plan. The end of the period a post-audit should be undertaken, including re-evaluation of the commitment decision and its future implication. These management audits should comprise items of the type indicated below:

- Resource profile, including personnel skills
- Differential advantage
- Data about the market structure and demand
- Trust and good will
- Patients and trademarks
- Standing arrangements with local suppliers and customers
- Competitive position
- Performance relative to budget
- Performance relative to other aspects of objectives and plan
- Impact on host country

D) Contingency plan: contingency planning is the stand by plan for emergencies. It may be a strike, an import prohibition, a currency devaluation, failure to obtain local financing if planned for, or simply the fact that some vital assumption about the future might be mistaken.

E) Long-term plan: assuming that the substance of the initial plan will be realized, the long-term plan should atleast present a sketch of the next three to five years.*

Adapted from

- International Marketing Strategy, Third Edition, Hans B. Thorelli, S. Tamer Cavusgil

Activity 3

Study 3 organisations operating in International markets. Analyse their marketing plans for the past year to analyse how the marketing plans have been affected by

a) Reasons for entering international markets
b) Corporate strengths
c) Marketing infrastructure available

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15.6 INTERNATIONAL MARKETING CONTROL

International marketing displays an interesting paradox with respect to the marketing control situations. While control of multinational operations is far more formidable and poses additional challenges, few business firms exercise control on international operations as throughly as they should. The additional difficulty in control of international activities emanates from a number of reasons. The rate of environmental change in a multinational company is a factor dependent upon each of the markets in which the company operates. As the rate of change and the characteristics undergoing change differ for each of these national markets, this dimension becomes complex. In addition, the far greater heterogenity of environmental challenges makes the task of the marketing controller more difficult. In larger companies, the size of international operations necessitates formation of intermediate headquarters, creating an additional organisational level for the control mechanisms. Further, international operations present unique communication problems emanating form the distance between markets and corporate headquarter, and variations in language cultures and business practices, across the national markets. Thus time lags, cultural lags, communication lags and varying objectives contribute to the problem of establishing and managing effective international marketing control systems.

In order to perform at optimum profit levels consistently, all functional areas need systematic control and coordination. While the requirements of an international marketing control system are similar to those of the domestic system, the specific challenges posed by the former necessitate that some consideration may be given to the following :

a) International control can seldom be as complete as that of domestic operations, the tools used therefore need to be reasonable and realistic. A cumbersome or complex system is soon likely to become non funtional .

b) The cost of control system must be commensurate with the benefits accruing from it.

c) In order to be effective in meeting the challenges posed by rapidly changing, heterogeneous market places, the control system must be sensitive and fast so that the organisation retains the flexibility to react to environmental opportunities and chanllenges

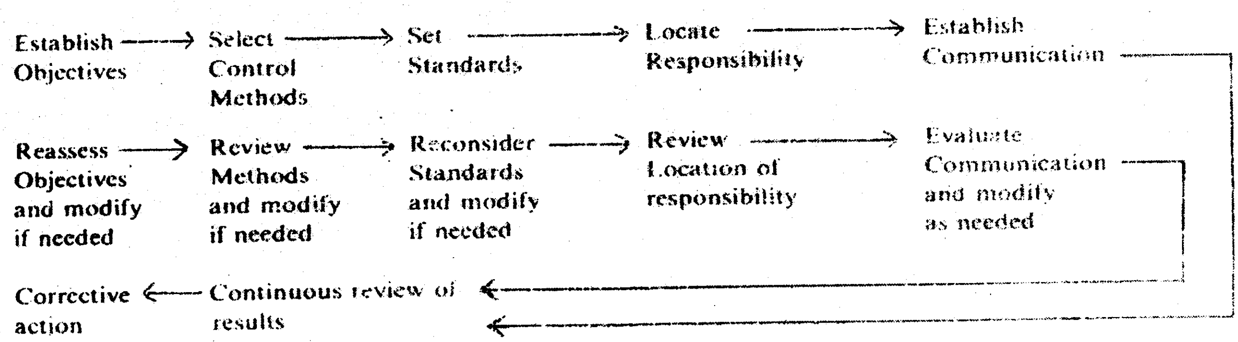
d) The control system may need variation according to the needs posed by different subsidiaries. Through this sounds a simple theoretical principal, most multinational companies tend to adopt a standardised system regardless of the type of country and location in which the system is to be operationalised.

e) The control system in the international markets needs to be streamlined enough so that the corporate headquarter is not innundated with masses of data, only key variables are simply presented to alert the organisation to variations from the planned performance.

15.7 CONTROL SEQUENCE

The control operations in international operation follow similar logical sequence as that in domestic markets though the implementation may vary greatly, according to the needs of markets chosen. Fig.2 given below shows the sequence and relationships of the step involved in the control process.

Fig. 2 Control System



Companies vary in the entry objectives they seek in international markets. For the purposes of designing adequate control systems, management needs to clearly outline its specific long run and short run objectives for specific international markets. Companies with distant foreign subsidiaries often fail to communicate enough about the firms objectives and goals relating to specific operating units. Unless objectives are conveyed explicitly they cease to have relevance to the operating units.

Methods of control chosen for international control may be direct or indirect. The direct control methods include contractual arrangements and equity sharing. Communication and competition are used as indirect control methods. Organisations vary in the extent and degree of control, regardless of the method of control used.

While contractual arrangements represent a mechanism for direct control, their existence does not automatically generate control. Quota provision and licence requirements therefore are applied by international marketers as specific inclusion in the contractual arragements, to facilitate direct control. However, most parent companies augment these control provisions with other methods.

When the parent company participates in the policy making or administration of its foreign subsidiaries, a more effective control is ensured. Similarly ownership participation enables the parent company to exercise closer control on international operation.

Depending upon the objectives to be achieved standards of performance are adopted to evaluate performance of the operating units. The performance standards for the marketing task can be set for profits, sales volume, channel performance, achieving and gaining market share and other measures deemed relevant.

Revenue and expense budgets both form part of the standards set for international operation. There is a general tendency on the part of companies to understate expense budgets and overstate revenue. It is advisable that country specific research and analysis of budget estimates precedes any definition of these standards. In order to provide for an overall comprehensive control system, standards should be set at all levels of operation. These should be reviewed at the level above to ensure realism and consistency with corporate goals.

Location of ultimate responsibility for international operation is usually a difficult problem because of complexity of international organisations. Coordination between respective functional area of the parent company and the foreign subsidiary becomes imperative. The need for coordination is much higher when a multinational company has organised its international operations on product basis. As far as possible, to facilitate centralised action and coordination, the primary responsibility for control should be located with one person who can then control the activities of others.

Formalised, defined communication systems become imperative in the context of international control procedures, in contrast to the domestic marketing, where informal communication are quite often utilized in addition to the formal ones.

An important ingredient of the communication system are tools used for information collection. The approaches used are examination of company records, routine reporting periodic enquiry and fold audits.

Company Records

Depending upon the informational needs some companies are interested primarily in the analysis of the aggregate sales or profit figures of their overseas business supplemented by the routine reporting system information, this type of analysis may given an idea of the overall position of the international.

Periodic Enquiry

Most parent companies even those who have entrusted their overseas operations control to the subsidiaries themselves, institute a system of periodic enquiry about their marketing operations and their effectiveness. The sources of information could be organisational, including functional departmental heads or non-organisational including consumer and channel members. This sort of periodic enquiry, specially if it is in contest of specifically defined objectives, helps in sensitising the parent organisation to the variation from the planned performance and even the possible reasons for it.

Routine Reporting or Monitoring Systems

Parent companies which prefer a centralised control, tend to develop and implement a monitoring system consisting of standardised report formats, submitted perodically. The reporting formats are designed to make interpretation of variance possible. These monitoring systems include routine reports by field sales personnel and channel members. A routine reporting is time consuming, the system should be periodically reviewed to ensure that it is economical, accurate and relevant.

Field Audits

It is some times felt that reported information at times is not adequate enough to provide a full, in depth understanding of international business sense. Without perceptual understanding of the location and environment, it is difficult to understand some of the pecularities of the situation that the management may have to deal with. A system of periodic field visits may provide with organisation with greater insights into the marketing problems unique to a given international markets. The periodicity of the audit visit would depend upon the number of kinds of problems encounted in the foreign market, the profit potential of the area, the capabilities of the local managerial personnel and the cost of these visits. To make effective use of the field audit as a control tool, the field auditor must plan in advance, an audit checklist so as to ensure adequate field coverage.

Evaluation and Corrective Action

This final step in the control process involves the comparison of actual performance with planned performance. Information generated from the markets needs to be compared with predefined, established norms and standards for different operational areas. If the expected and the actual results vary, corrective action is indicated either by modifying operations and procedures or by modifying the standards and objectives, if they seen to be unrealistic in the context of the altering circumstances. In international markets there is a heightened possibility of a time lag developing between the initiation and implementation of corrective action. It is therefore, important that both evaluation and remedial action be adopted as continuing, itcrative activities. An additional safeguard in view of the possibility of time lag, is the development of contingency plans which may be utilised to meet unanticipated market conditions.

Activity 4

With respect to the organisation studied for activity 3, study the control systems used by them. Comment upon

a) The differentiation between domestic and international control operations

b) The control tools used

c) The communication systems established for control purposes

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15.8 SUMMARY

International marketing planning presents the challenge of responding to different environment variables and integrating rational, regional and international planning inputs into an overall plan that best utilises organisational resources to exploit opportunities. This unit discusses the complexity of international planning and provides an overall framework for strategic marketing planning.

Planning as an activity necessitates control because and when a company plans, it must also make arrangements to monitor the plan output and make adjustments to adjust variations from planned activity. The unit presents a sequential description of the international marketing control process and points out factors worthy of consideration while designing control mechanisms for international markets. At the outset, however it should be clear there is no single correct organisational structure.

15.9 SELF-ASSESSMENT QUESTIONS

a) Differentiate between domestic and international planning.

b) How do entry objectives in a given foreign market affect the marketing planning for that market ? Explain with examples.

c) What barriers make controlling international operations more complex than controlling domestic marketing activities ? Expalin with the help of a specific example.

d) How are contractual arrangements utilised for affecting control of international operations ?

e) Comment upon the communication systems that can be established for effective control systems.

15.10 FURTHER READINGS

Hans B. Thorelli, S. Tamer Covusgil (ed.), *International Marketing Strategy*, Pergamon Press—Third Edition, Oxford, 1990.

Philip Cateora and John M. Hess, *International Marketing*, Third Edition, Richard D. Irwin, Inc., Homewood Illinouis, 1975.