INTERNATIONAL ORGANIZATIONAL STRUCTURES

The four major types of international organizational structures.

The types are:

1. Expo-documents against acceptancert Department

2. International division structure

3. Global Organizational Structures

4. Evolution of Global Organizational Structures.

1. Expo-documents against acceptancert Department:

Exports are often looked after by a company's marketing or sales department in the initial stages when the volume of exports sales is low. However, with increase in exports turnover, an independent exports department is often setup and separated from domestic marketing, as shown in Fig. 17.2.

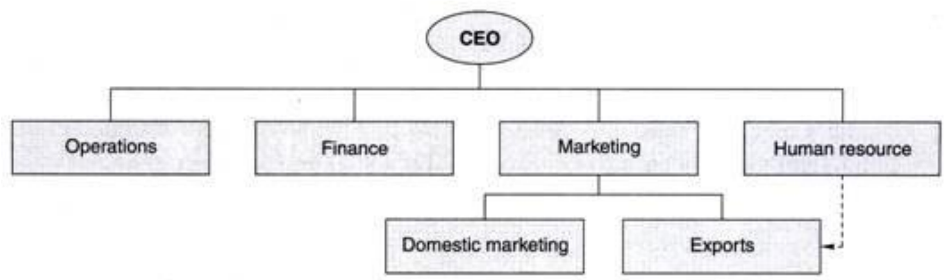

Fig. 17.2 Exports department

Exports activities are controlled by a company's home-based office through a designated head of export department, i.e. Vice President, Director, or Manager (Exports). The role of the HR department is primarily confined to planning and recruiting staff for exports, training and development, and compensation.

Sometimes, some HR activities, such as recruiting foreign sales or agency personnel are carried out by the exports or marketing department with or without consultation with the HR department.

2. International division structure:

As the foreign operations of a company grow, businesses often realize the overseas growth opportunities and an independent international division is created which handles all of a company's international operations (Fig. 17.3). The head of international division, who directly reports to the chief executive officer, coordinates and monitors all foreign activities.

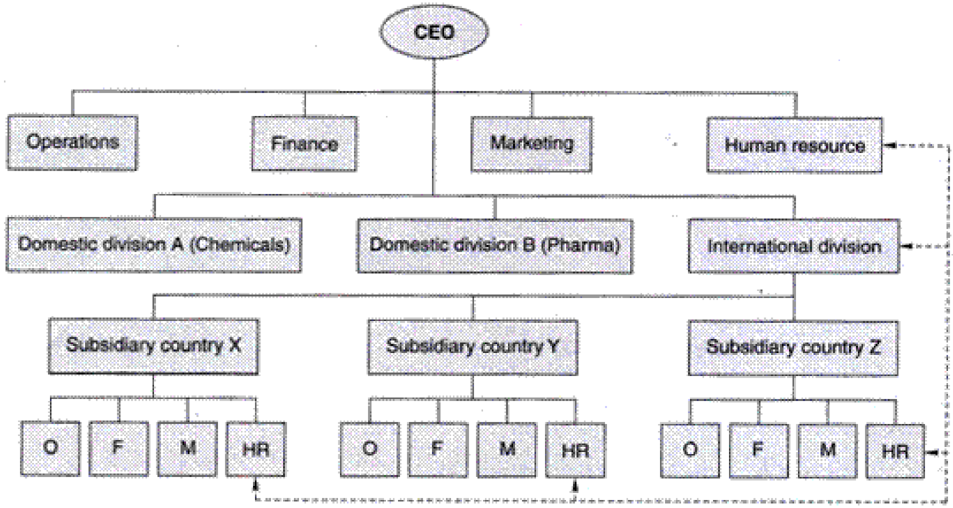

Fig. 17.3 International division structure

The in-charge of subsidiaries reports to the head of the international division. Some parallel but less formal reporting also takes place directly to various functional heads at the corporate headquarters.

The corporate human resource department coordinates and implements staffing, expatriate management, and training and development at the corporate level for international assignments. Further, it also interacts with the HR divisions of individual subsidiaries.

The international structure ensures the attention of the top management towards developing a holistic and unified approach to international operations. Such a structure facilitates cross-product and cross-geographic co-ordination, and reduces resource duplication.

Although an international structure provides much greater autonomy in decision-making, it is often used during the early stages of internationalization with relatively low ratio of foreign to domestic sales, and limited foreign product and geographic diversity.

3. Global Organizational Structures:

Rise in a company’s overseas operations necessitates integration of its activities across the world and building up a worldwide organizational structure.

While conceptualizing organizational structure, the internationalizing firm often has to resolve the following conflicting issues:

i. Extent or type of control exerted by the parent company headquarters over subsidiaries

ii. Extent of autonomy in making key decisions to be provided by the parent company headquarters to subsidiaries (centralization vs. decentralization)

It leads to re-organization and amalgamation of hitherto fragmented organizational interests into a globally integrated organizational structure which may either be based on functional, geographic, or product divisions. Depending upon the firm strategy and demands of the external business environment, it may further be graduated to a global matrix or trans-national network structure.

Global functional division structure:

It aims to focus the attention of key functions of a firm, as shown in Fig. 17.4, wherein each functional department or division is responsible for its activities around the world. For instance, the operations department controls and monitors all production and operational activities; similarly, marketing, finance, and human resource divisions co-ordinate and control their respective activities across the world.

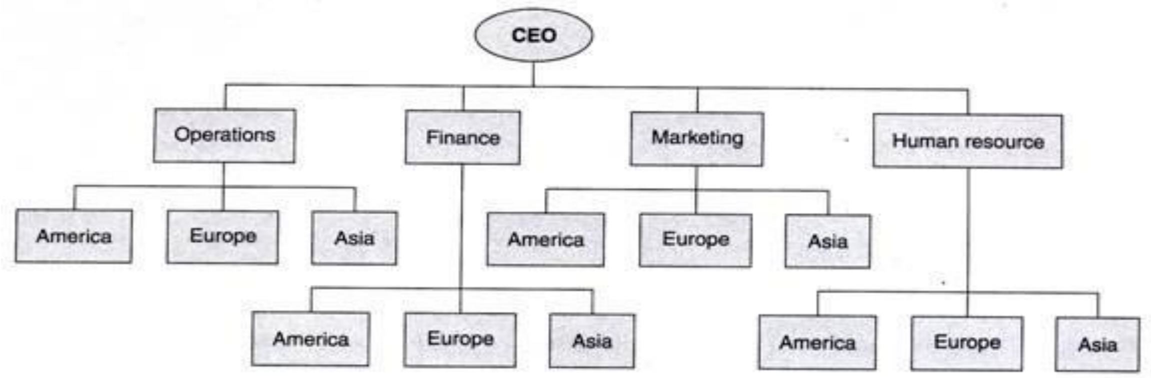

Fig. 17.4 Global functional division structure

Such an organizational structure takes advantage of the expertise of each functional division and facilitates centralized control. MNEs with narrow and integrated product lines, such as Caterpillar, usually adopt the functional organizational structure.

Such organizational structures were also adopted by automobile MNEs but have now been replaced by geographic and product structures during recent years due to their global expansion.

The major advantages of global functional division structure include:

i. Greater emphasis on functional expertise

ii. Relatively lean managerial staff

iii. High level of centralized control

iv. Higher international orientation of all functional managers

The disadvantages of such divisional structure include:

i. Difficulty in cross-functional coordination

ii. Challenge in managing multiple product lines due to separation of operations and marketing in different departments

iii. Since only the chief executive officer is responsible for profits, such a structure is favoured only when centralized coordination and control of various activities is required.

Global product structure:

Under global product structure, the corporate product division, as depicted in Fig. 17.5, is given worldwide responsibility for the product growth.

The heads of product divisions do receive internal functional support associated with the product from all other divisions, such as operations, finance, marketing, and human resources. They also enjoy considerable autonomy with authority to take important decisions and operate as profit centres.

Fig. 17.5 Global product structure

The global product structure is effective in managing diversified product lines.

Such a structure is extremely effective in carrying out product modifications so as to meet rapidly changing customer needs in diverse markets. It enables close coordination between the technological and marketing aspects of various markets in view of the differences in product life cycles in these markets, for instance, in case of consumer electronics, such as TV, music players, etc.

However, creating exclusive product divisions tends to replicate various functional activities and multiplicity of staff. Besides, little attention is paid to worldwide market demand and strategy. Lack of cooperation among various product lines may also result into sales loss. Product managers often pursue currently attractive markets neglecting those with better long-term potential.

Global geographic structure:

Under the global geographic structure, a firm's global operations are organized on the basis of geographic regions, as depicted in Fig. 17.6. It is generally used by companies with mature businesses and narrow product lines. It allows the independent heads of various geographical subsidiaries to focus on the local market requirements, monitor environmental changes, and respond quickly and effectively.

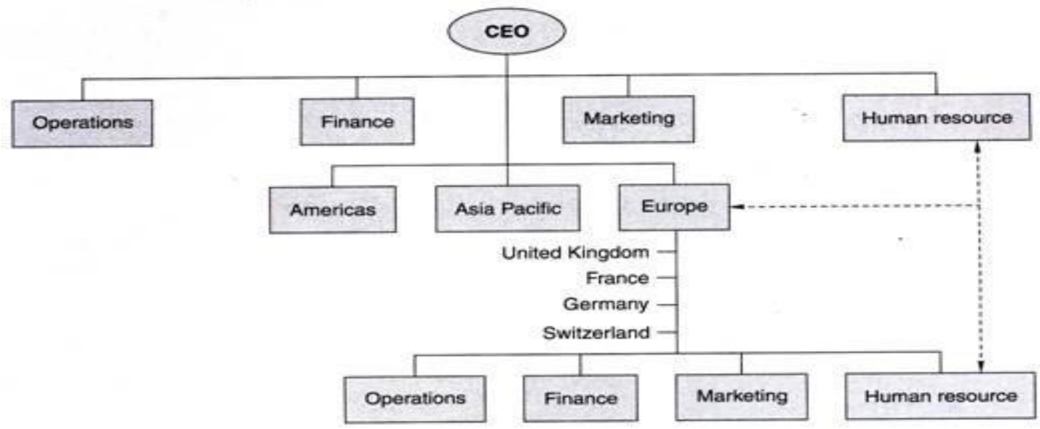

Fig. 17.6 Global geographic structure

The corporate headquarter is responsible for transferring excess resources from one country to another, as and when required. The corporate human resource division also coordinates and provides synergy to achieve company's overall strategic goals between various subsidiaries based in different countries.

Such structure is effective when the product lines are not too diverse and resources can be shared. Under such organizational structure, subsidiaries in each country are deeply embedded with nationalistic biases that prohibit them from cooperating among each other.

Global matrix structure:

It is an integrated organizational structure, which super-imposes on each other more than one dimension. The global matrix structure might consist of product divisions intersecting with various geographical areas or functional divisions (Fig. 17.7). Unlike functional, geographical, or product division structures, the matrix structure shares joint control over firm's various functional activities.

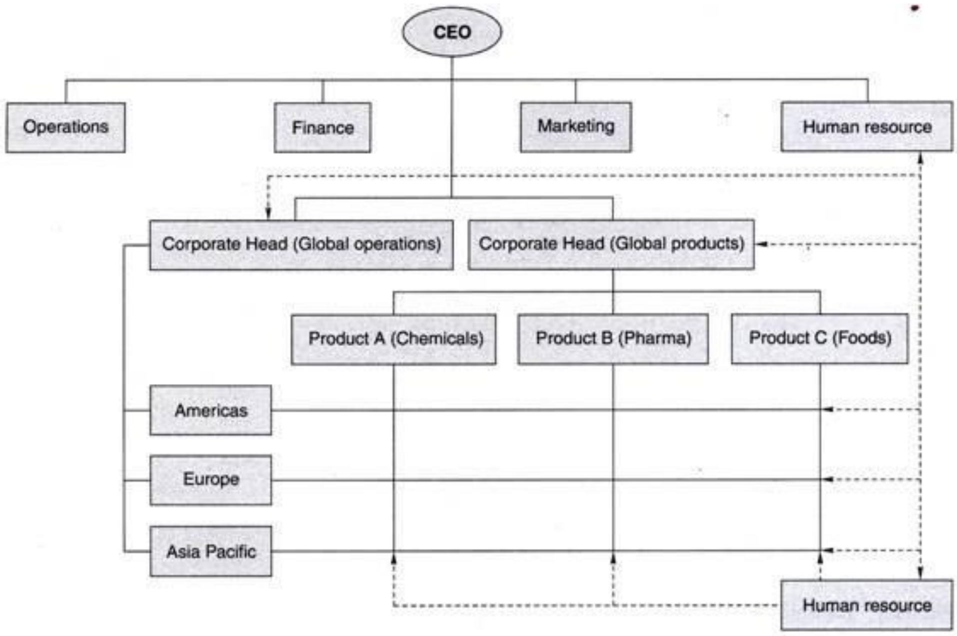

Fig. 17.7 Global matrix structure

Such an integrated organizational structure facilitates greater interaction and flow of information throughout the organization. Since the matrix structure has an in-built concept of interaction between intersecting perspectives, it tends to balance the MNE's prospective, taking cross-functional aspects into consideration.

It facilitates ease of technology transfer to foreign operations and of new products to different markets leading to higher economies of scale and better foreign sales performance. Matrix structure is used successfully by a large number of MNEs, such as Royal Dutch/Shell, Dow Chemical, etc.

In an effort to bring together divergent perspectives within the organization, the matrix structure may also lead to conflicting situations. It inhibits a firm's ability to respond quickly to environmental changes in case an effective conflict resolution mechanism is not in place.

Since the structure requires most managers to report to two or multiple bosses, Fayol's basic principle of unity of command is violated and conflicting directives from multiple authorities may compel employees to compromise with sub-optimal alternatives so as to avoid conflict which may not be the most appropriate strategy for an organization as a whole.

Transnational network structure:

Such a globally integrated structure represents the ultimate form of an earth-spanning organization, which eliminates the meaning of two or three matrix dimensions. It encompasses elements of function, product, and geographic designs while relying upon a network arrangement to link worldwide subsidiaries (Fig. 17.8).

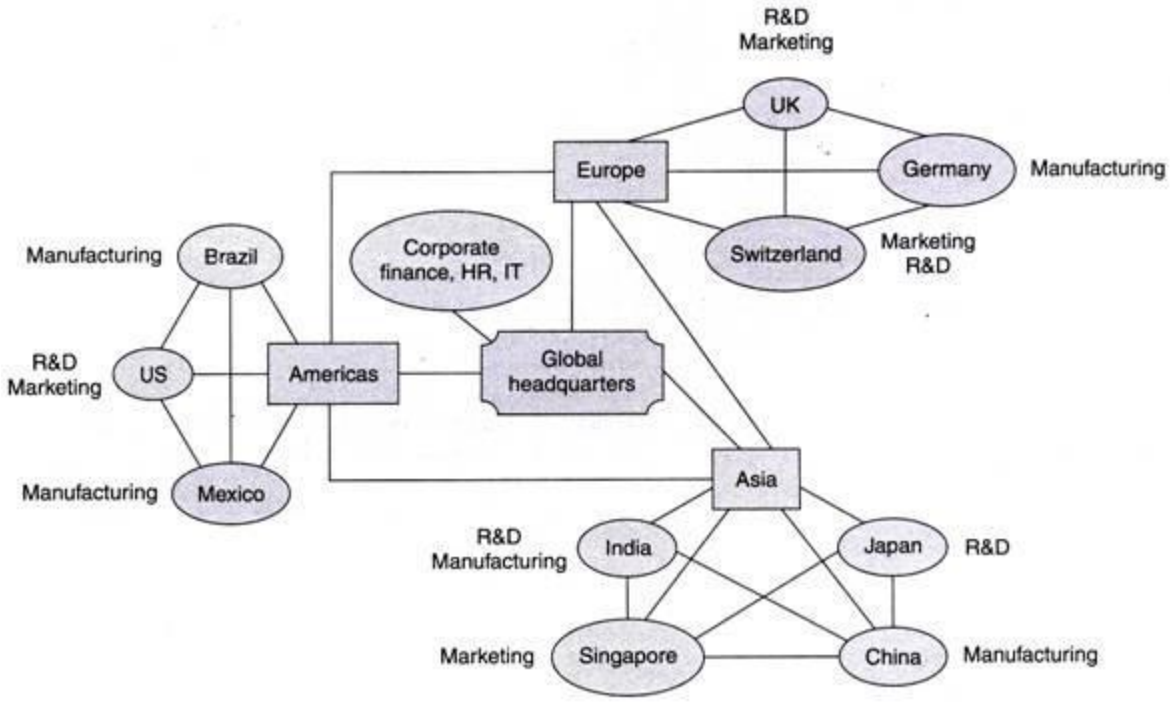

Fig. 17.8 Transnational network structure

This form of organization is not defined by its formal structure but by how its processes are linked with each other, which may be characterized by an overall integrated system of various inter-related sub-systems.

The trans-national network structure is designed around ‘nodes’, which are the units responsible for coordinating with product, functional and geographic aspects of an MNE. Thus, trans-national network structures build-up multidimensional organizations which are fully networked.

4. Evolution of Global Organizational Structures:

Organizational structures often exhibit evolutionary patterns, as shown in Fig. 17.9, depending upon their strategic globalization. The historical evolution of organizational patterns indicates that in the early phase of internationalization, most firms separate their exports departments from domestic marketing or have separate international divisions.

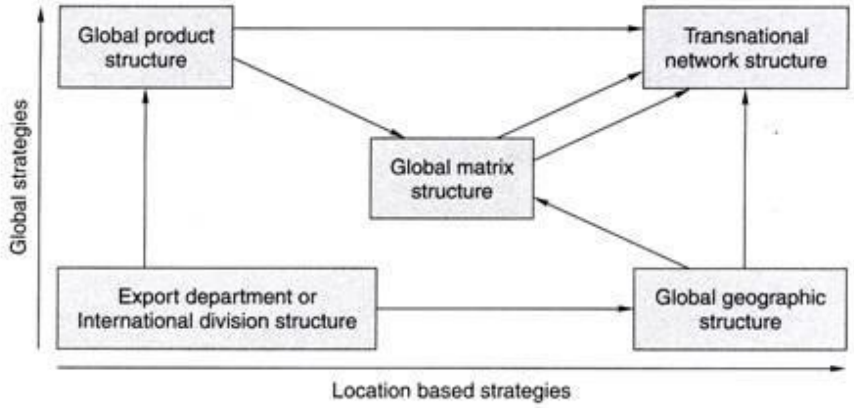

Fig. 17.9 Evolution of global organizational structures

Companies with emphasis on global business strategies move towards global product structures whereas those with emphasis on location base strategies move towards global geographic structures.

Subsequently, a large number of companies graduate to a matrix or trans-national network structure due to dual demands of local adaptations pressures and globalization. In practice, most companies hardly adopt either pure matrix or trans-national structures; rather they opt for hybrid structures incorporating both.

CONTROLLING OF INTERNATIONAL BUSINESS

There are three main levels at which control can be implemented and managed in an international business. These three key levels of control are as follows:

I. Strategic
II. Organizational
III. Operational

Strategic Control:

Strategic control in intended both how well an international business formulates strategy and how well it goes about implementing it. Thus strategic control focuses on how well the firm defines and maintains its desired strategic alignment with its environment and how effectively it is setting and achieving its strategic goals.

Strategic control also play a major role in the decisions firms make about foreign-market entry and expansion and most critical aspect of strategic control is control of an international firm's financial resources.

I. **Organizational Control:**

Organizational control focuses on the design of the organization itself. There are many different forms of organizational design an international firm can use. But selecting and implementing a particular design does not necessarily end the organization design process.

International firm generally use one or more of three types of organizational control systems:

Responsibility Centre Control: The most common type of organizational control system is a decentralized one called responsibility centre control. Using this system, a firm first identifies fundamentals responsibility centers within the organization. Strategic business units are frequently defined as responsibility centers, as are geographical regions or product groups.

Generic Organizational Control:A firm may prefer to use generic organizational across its entire organization; that is, the control systems used are the same for each unit or operation, and the locus of authority generally resides at the firm's headquarters.

Planning Process Control:A third type of organizational control, which could be used in combination with either responsibility center control or generic organizational control, focuses on the strategic planning process itself rather than on outcomes. Planning process control calls for a firm to concentrate its organizational control system on the actual mechanics and processes its uses to develop strategic plans.

II. **Operations Control:**

The third level of control in an international firm is operations control. Operations control focuses specifically on operating processes and systems within both the firm and its subsidiaries and operating units. Thus a firm needs an operation control system within each business unit and within each country or market in which it operates.

PERFORMANCE OF GLOBAL BUSINESS:

Global Business Performance is a flexible, web based solution that provides the key components to support global decision making. It offers the integration and management of multiple, cross-country data sources including POS, retailer direct, syndicated and consumer data. Global Business Performance identifies trends and opportunities and delivers sales and performance insights across regions, countries and categories, only days after data is available.

Key Features and Benefits:

Data from many disparate sources can be harmonized and integrated to give one consistent, accurate and actionable view of a company's performance across many different markets.

Sales, trends, performance, issues and opportunities can be identified across multiple countries, regions and categories a few days after the data is available, rather than weeks or months later.

This approach ensures the fast identification of global sales, marketing and supply chain opportunities, and provides the ability to focus on the key issues, and expand the solution when and where required

PERFORMANCE EVALUATION SYSTEM:

The second evaluation challenge is that networks are unique organizations that contrast to a large degree with the corporate, governmental or civil society organizational structures of their members. To paraphrase systems thinker Russell

The organizational chart on the left is common for government, business or civil society

GLOBAL PRODUCTION STRATEGIES:

Multi-domestic**.** Concerns operations where each market is serviced independently. Can relate to simple products that are easy to replicate but costly to transport over long distances. Production can be integrated globally, while the marketing is Multi-domestic, reflecting cultural and consumer preferences differences. The goal is therefore to better answer the needs of every market. This implies an independency in productivity, meaning that the efficiencies and productivities achieved in each market are unrelated to those taking place in other markets.

Globally integrated**.** Systems of production located in several countries and commonly involving complex products. Logistics activities are highly important as production and distribution capabilities need to be effectively reconciled. This implies an interdependency in productivity, as each component of the supply chain directly impacts the cost and the quality of the final product.

Four major location strategies for Global Production Networks can be identified:

Centralized global production. The entire production occurs within only one nation (or region) and is exported thereafter on the global market. This is particularly the case for activities that are difficult to relocate, such as goods linked to the location of resources, difficult to reproduce (e.g. luxury and craft) or depending on massive economies of scale.

Regional production. Takes place within each region that manufactures a good with the size of the production system related to the size of the regional market. This system depends more on a regional accessibility than on economies of scale. It particularly applies to well known manufacturing technologies and/or to products having high distribution costs (e.g. soft drinks).

Regional specialization. This global production network involves a spatial division of the production based on comparative advantages. Each region specializes in the production of a specific good and imports from other regions what it requires.

Vertical transnational integration. This global production network is another variant of specialization. Different stages of the production occur at locations offering the best comparative advantages. Raw materials are extracted from locations where they are the most accessible, while assembly is performed in regions having low labor costs or high

SCALE OF OPERATIONS:

The cost advantage that arises with increased output of a product. Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are shared over a larger number of goods. Economies of scale may also reduce variable costs per unit because of operational efficiencies and synergies. Economies of scale can be classified into two main types: Internal – arising from within the company; and External – arising from extraneous factors such as industry size.

MAKE-OR-BUY DECISION:

Definition:

The act of choosing between manufacturing a product in-house or purchasing it from an external supplier. In a make-or-buy decision, the two most important factors to consider are cost and availability of production capacity.

An enterprise may decide to purchase the product rather than producing it, if is cheaper to buy than make or if it does not have sufficient production capacity to produce it in-house. With the phenomenal surge in global outsourcing over the past decades, the make-or-buy decision is one that managers have to grapple with very frequently.

GLOBAL SUPPLY CHAIN ISSUES:

Supply chain management (SCM) is "the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long term performance of the individual companies and the supply chain as a whole." It has also been defined as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally."

Main functions of Supply Chain Management are as follows:

- Inventory Management
- Distribution Management Channel Management
- Payment Management Financial Management Supplier Management
- Transportation Management
- Customer Service Management

QUALITY CONSIDERATIONS IN INTERNATIONAL BUSINESS:

Outsourcing is a strategic management option rather than just another way to cut costs. The decision to outsource is often made in the interests of lowering costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of labor, capital, technology and resources. Its aim is to help companies achieve their business objectives through operational excellence.

One aspect of this is QA and testing. This can provide many benefits to companies, who are seeking to improve the quality of their production applications, reduce business risk through rigorous testing and augment and improve upon the incumbent testing teams and processes. Given the increase in global IT outsourcing agreements, many companies will be looking at outsourcing QA and testing as an independent validation and acceptance phase in order to ensure high quality deliverables and gain competitive advantages.

GLOBALIZATION IN MARKETS:

Globalization refers to the changes in the world where we are moving away from self-contained countries and toward a more integrated world. Globalization of business is the change in a business from a company associated with a single country to one that operates in multiple countries.

Impact of Globalization

Imagine for a moment that you run a business that produces digital cameras. How would globalization impact your company?

Market Globalization & Production Globalization.

Market globalization is the decline in barriers to selling in countries other than the home country. This change will make it easier for your company to begin selling products internationally, since lower tariffs keep consumer prices lower and fewer restrictions when crossing borders makes it easier for a company to enter a foreign market. It also means that companies must consider other cultures when developing their business strategies and potentially adjust the product and marketing messages if they aren't appropriate in the target country. This may not be an issue in the camera industry, but a hamburger company entering India would definitely need to revisit their product and strategies to be successful!

Production globalization is the sourcing of materials and services from other countries to gain advantage from price differences in different nations. For example, you might purchase materials and components for your cameras from multiple countries and then assemble the product in yet another international location to reduce your costs of production. This change should lead to lower prices for consumers, since products cost less to produce. It also impacts jobs, since production may shift from one country to another, usually from more developed countries to less developed countries with lower average wage rates.

INTERNATIONAL MARKETING STRATEGY:

Usually, selling focuses on the needs of the seller, marketing on the needs of the buyer (customer). The purpose of business is to get and keep a customer. Or, to use Peter Drucker`s more refined construction to create and keep a customer. (Through product Differentiation and price competition)

International marketing involves the marketing of goods and services outside the organization`s home country. Multinational marketing is a complex form of international marketing that engages an organization in marketing operations in many countries. Global marketing refers to marketing activities coordinated and integrated across multiple markets.

A firm`s overseas involvement may fall into one of several categories:

- Domestic: Operate exclusively within a single country.
- Regional exporter: Operate within a geographically defined region that crosses national boundaries. Markets served are economically and culturally homogenous. If activity occurs outside the home region, it is opportunistic.
- Exporter: Run operations from a central office in the home region, exporting finished goods to a variety of countries; some marketing, sales and distribution outside the home region.
- International: Regional operations are somewhat autonomous, but key decisions are made and coordinated from the central office in the home region. Manufacturing and assembly, marketing and sales are decentralized beyond the home region. Both finished goods and intermediate products are exported outside the home region
- International to global: Run independent and mainly self-sufficient subsidiaries in a range of countries. While some key functions (R&D, sourcing, financing) are decentralized, the home region is still the primary base for many functions. 6- Global: Highly decentralized organization operating across a broad range of countries. No geographic area (including the home region) is assumed a priori to be the primary base for any functional area. Each function including R&D, sourcing, manufacturing, marketing and sales is performed in the locations around the world most suitable for that function.

CHALLENGES IN PRODUCT DEVELOPMENT:

The cost of manufacturing, distributing and marketing the product.

The actual physical location of production plants.

Currency Exchange Rates - US export companies are benefiting from a relatively low US Dollar price during the 2010s. Most hearing aid companies, however, these are based in Europe and therefore the high value of the Swiss Franc and the Euro relative to other currencies must be considered. This make imports into the United States from these countries expensive, but exports from the US relatively cheap to other nations. This has to do not just with demand for a particular product, but also with macroeconomic demand for national currencies, which affects inflation and, by extension, pricing. Currency fluctuations also make it very difficult for companies to make long-term decisions – such as building large factories in global markets. For example, the costs of production may be cheap today, but they could be expensive in the future, impacting upon the price that a manufacturer is forced to charge. The price that the international consumer is willing to pay for the product. The manufacturer’s business objectives. For example, large international companies such as

Starbucks may be willing to operate at a loss in some locations because they need a local presence to maintain their economies of scale, as well as their reputation as a global player. Some hearing aid manufacturers act similarly in order to become “world players.”

The price that competitors in international markets are already charging. **Business environment** factors such as government policy and taxation.

National Market Size – A company will often attempt to use the potential volume of sales to estimate the price at which it will need to market a product to break even. For larger countries with the potential for more sales, this price may be set lower; for smaller countries, the price may be higher.

Cultural Differences – One of the more complicated factors in international pricing is cultural variation among companies. Cultural variations that affect pricing can take many forms, most of which have to do with how members of certain cultures perceive the value of certain products, which in turn affects how much they are willing to pay for them. Some cultures do not value amplification products and they are seen with significant stigma. Thus, hearing aid prices can be greatly affected depending upon whether a manufacturer’s device is large and obvious or invisible.

Regulations – When setting prices in other countries, companies must research all national regulations relevant to their product, as many countries set price ceilings as well as price floors on certain products. Others require Value Added Tax (VAT) and other taxes that must be considered during the pricing decisions.

INVESTMENT DECISIONS:

The proliferation of multinational corporations (hereinafter referred to as MNCs) began 200 years ago, but they were making only a part of the foreign investment in different countries in the form of portfolio rather than long term Greenfield or joint venture investments.

With the increase of globalization, which is both the cause and the effect of internationalization of world trade, MNCs have become dominant players in the global economy. Although severely affected by the economic and financial crisis, and expected to fall from $1.7 trillion of 2008 to below $1.2 in 2009, the foreign direct investment (FDI) by MNCs have been paid great importance for high economic growth and strong economic performance in many parts of the world.

The end of the Cold War which led to the liberalization of the developing markets and opening of their economies with the removal of foreign investment barriers, privatization of the state economic enterprises and development of FDI attractive policies, has increased the investment of MNCs, especially in the developing countries. Latin America, Eastern Europe and Asian economies have become predominantly FDI focused first with labor-intensive manufacturing industries and then with market-seeking FDI by 1990’s.

1 ECONOMIC RISK:

It is the chance that macroeconomic conditions like exchange rates, government regulation, or political stability will affect an investment, usually one in a foreign country.

How it works/Example:

For example, let's assume American Company XYZ invests $1,000,000 in a manufacturing plant in the Congo. Aside from the business risk associated with making the plant profitable, Company XYZ is exposed to economic risk.

The political environment could shift quickly, perhaps prompting the Congolese government to seize the plant or significantly change laws that affect Company XYZ's ability to operate the plant.

Likewise, hyperinflation could make it impossible to pay workers, or exchange rate circumstances could make it unprofitable to move profits out of the country.

Why it Matters:

Economic risk is one reason international investing carries more risk than domestic investing. Shareholders and bondholders often bear the economic risk undertaken by international companies like Company XYZ. Investors who purchase and sell foreign government bonds are also exposed.

Economic risk may also add opportunity for investors. Foreign bonds, for example, allow investors to participate indirectly in the foreign exchange markets and the interest rate environments of different countries. But the foreign regulatory authorities may impose different requirements on the types, sizes, timing, credit quality, disclosures, and underwriting of bonds issued in their countries.

Economic risk can be mitigated by opting for international mutual funds because they provide instant diversification, often investing in a variety of countries, instruments, currencies, or international industries.

2 POLITICAL RISK:

It is a type of risk faced by investors, corporations, and governments. It is a risk that can be understood and managed with reasoned foresight and investment.

Broadly, political risk refers to the complications businesses and governments may face as a result of what are commonly referred to as political decisions or “any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives”. Political risk faced by firms can be defined as “the risk of a strategic, financial, or personnel loss for a firm because of such nonmarket factors as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labor, and developmental), or events related to political instability (terrorism, riots, coups, civil war, and insurrection).”Portfolio investors may face similar financial losses. Moreover, governments may face complications in their ability to execute diplomatic, military or other initiatives as a result of political risk.

For multinational companies, political risk refers to the risk that a host country will make political decisions that will prove to have adverse effects on the multinational's profits and/or goals. Adverse political actions can range from very detrimental, such as widespread destruction due to revolution, to those of a more financial nature, such as the creation of aws that prevent the movement of capital.

In general, there are two types of political risk,

Macro risk and micro risk.

Macro risk

SOURCES OF FUND:

1. **Angel equity:**

If you must sell an owner ship stake to get your company off the ground, start by finding a respected industry executive who is willing to invest a reasonable amount and give your venture credibility with other investors . The advice and networking–without all t he heavy-handed demands of a VC–come in hand y, too.

2. **Smart leases**:

Leasing fixed assets con serves cash for working capital (to cover inv entory), which is generally tougher to finance, es pecially for an unproven business. Warning: Don’t put so much money down that you end up spending the same amount of cash as you wou ld have had you bought the asset with a down p ayment. The cost of a lease may be slightly higher than bank financing (see source No. 10), but the cost of the down payment you did not have to make is likely to be less painful than the dilution you suffer from giving away equity.

3. **Bank loans**:

Banks are like the supermarket of debt financing. They provide short-, mid- or long-term financing, and they finance all asset needs, including working capital, equipment and real estate. This assumes, of course, that you can generate enough cash flow to cover the interest payments (which are tax deductible) and return the principal.

Banks want assurance of repayment by requiring personal guarantees and even a secured interest (such as a mortgage) on personal assets. Unlike other financing relationships, banks offer some flexibility: You can pay off your loan early and terminate the agreement. VCs and other institutional investors may not be so amenable.

4. **SBA loans:**

Of all the federally sponsored debt-financing programs, this is the most popular, and perhaps the best. It loosens the flow of credit by guaranteeing the lender against a portion of any loss incurred on the loan. Not to say that banks aren't careful when making 4(a) loans: They are required to keep the non-guaranteed portion on their books.

The interest rate can vary based on the size of the loan, with smaller amounts costing a little more. Shop around. Some banks reap servicing fees and nice profits by selling the guaranteed portion of the loan to insurance companies and pension funds; in those cases, a lender may be willing to offer you a better rate.

5. **Local and state economic development organizations:**

Economic-development organizations can charge tantalizingly low interest rates when lending alongside a bank.

Say company need to raise $200,000 for a building. A bank may offer $150,000 on a first mortgage at a variable interest rate of prime, now 3.25%, plus 200 basis points, for a total of 5.25%. The local development entity might lend you another $30,000 on a second mortgage at a fixed-interest rate of 4%, without seeking equity shares or warrants. (Without the development corporation's contributions, you would have to scare up $50,000 in equity–expensive.) If you don't have the cash flow to cover the interest, the development organization may offer extended terms. Some loans are interest-only for the first year or two, and even the interest payments can be accrued for a certain time period.

Development groups may not agree to finance an entire operation, but they make snagging the remainder from other private sources a lot easier. Talk to your local chamber of commerce to find these programs. (Also checkwww.infinancing.com for a list of the types of development finance organizations).

6. **Customers:**

Advance payments from customers–assuming the terms aren't too onerous–can give you the cash you need, at a relatively low cost, to keep your business growing. Advances also demonstrate a level of commitment by that customer to your operation. About half of the world-beating entrepreneurs in my book, Bootstrap to Billions (seewww.dileeprao.com), were funded by their customers. This strategy allowed them to grow faster and with limited resources, and to operate with relative impunity with respect to their investors.

7. **Vendors**:

Dick Schulze built Best Buy with financing from large consumer electronics firms–in other words, his suppliers. This way, your financiers do not control your growth; you do. Just be sure not to enslave yourself to a handful of powerful suppliers in the process.

8. **Friends and family members:**

If you're lucky, friends and family members might be the most lenient investors of the bunch. They don't tend to make you pledge your house, and they might even agree to sell their interest in your company back to you for a nominal return.

9. **Small Business Innovation Research (SBIR) grants**:

Getting past the paper-intensive application process and SBIR grants can be a great way to turn your intellectual property into mailbox money. For more on these grants, check out How to Get Uncle Sam to Fund Your Start-Up.

EXCHANGE RATE RISK & MANAGEMENT:

It is also known as FX risk, exchange rate risk or currency risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. Foreign exchange risk also exists when the foreign subsidiary of a firm maintains financial statements in a currency other than the reporting currency of the consolidated entity. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed. Investors and businesses exporting or importing goods and services or making foreign investments have an exchange rate risk which can have severe financial consequences; but steps can be taken to manage (i.e., reduce) the risk

TYPES OF EXPOSURE:

Transaction Exposure:

A firm has transaction exposure whenever it has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. To realize the domestic value of its foreign-denominated cash flows, the firm must exchange foreign currency for domestic currency. As firms negotiate contracts with set prices and delivery dates in the face of a volatile foreign exchange market with exchange rates constantly fluctuating, the firms face a risk of changes in the exchange rate between the foreign and domestic currency. It refers to the risk associated with the change in the exchange rate between the time an enterprise initiates a transaction and settles it.

Applying public accounting rules causes firms with transactional exposures to be impacted by a process known as "re-measurement". The current value of contractual cash flows is re-measured at each balance sheet date. If the value of the currency of payment or receivable changes in relation to the firm's base or reporting currency from one balance sheet date to the next, the expected value of these cash flows will change. U.S. accounting rules for this process are specified in ASC 830, originally known as FAS 52. Under ASC 830, changes in the value of these contractual cash flows due to currency valuation changes will impact current income.

Economic exposure:

A firm has economic exposure (also known as forecast risk) to the degree that its market value is influenced by unexpected exchange rate fluctuations. Such exchange rate adjustments can severely affect the firm's market share position with regards to its competitors, the firm's future cash flows, and ultimately the firm's value. Economic exposure can affect the present value of future cash flows. Any transaction that exposes the firm to foreign exchange risk also exposes the firm economically, but economic exposure can be caused by other business activities and investments which may not be mere international transactions, such as future cash flows from fixed assets. A shift in exchange rates that influence the demand for a good in some country would also be an economic exposure for a firm that sells that good.

Translation exposure:

A firm's translation exposure is the extent to which its financial reporting is affected by exchange rate movements. As all firms generally must prepare consolidated financial statements for reporting purposes, the consolidation process for multinationals entails translating foreign assets and liabilities or the financial statements of foreign subsidiary subsidiaries from foreign to domestic currency. While translation exposure may not affect a firm's cash flows, it could have a significant impact on a firm's reported earnings and therefore its stock price. Translation exposure is distinguished from transaction risk as a result of income and losses from various types of risk having different accounting treatments.

Contingent exposure:

A firm has contingent exposure when bidding for foreign projects or negotiating other contracts or foreign direct investments. Such an exposure arises from the potential for a firm to suddenly face a transactional or economic foreign exchange risk, contingent on the outcome of some contract or negotiation. For example, a firm could be waiting for a project bid to be accepted by a foreign business or government that if accepted would result in an immediate receivable. While waiting, the firm faces a contingent exposure from the uncertainty as to whether or not that receivable will happen. If the bid is accepted and a receivable is paid the firm then faces a transaction exposure, so a firm may prefer to manage contingent exposures.

Financial risk is most commonly measured in terms of the variance or standard deviation of a variable such as percentage returns or rates of change. In foreign exchange, a relevant factor would be the rate of change of the spot exchange rate between currencies. Variance represents exchange rate risk by the spread of exchange rates, whereas standard deviation represents exchange rate risk by the amount exchange rates deviate, on average, from the mean exchange rate in probability. A higher standard deviation would signal a greater currency risk. Economists have criticized the accuracy of standard deviation as a risk indicator for its uniform treatment of deviations, be they positive or negative, and for automatically squaring deviation values. Alternatives such as average absolute deviation and semi variance have been advanced for measuring financial risk.

STRATEGIC ORIENTATION:

The stages of international marketing involvement described above do not necessarily coincide with managers' thinking and strategic orientations. Often companies are led into international and even global markets by burgeoning consumer or customer demands, and strategic thinking is secondary to "filling the next order". But putting strategic thinking on the back burner has resulted in marketing failures for even the largest companies.

The consensus of the researchers and authors in the area reveals three relatively distinctive approaches that seem to dominate strategic thinking in firms involved in international markets:

- Domestic market extension concept
- Multi-domestic market concept
- Global marketing concept

Differences in the complexity and sophisticated of a company's marketing activity depend on which orientation guides its operations. The ideas expressed in each strategic orientation reflect the philosophical orientation that also should be associated with successive stages in the evolution of the international operations in a company.

- **Domestic market extension concept**

The domestic company seeking sales extension of its domestic products into foreign markets illustrates this orientation to international marketing.

It views its international operations as secondary to and an extension of its domestic operations; the primary motive is to market excess domestic production. Domestic business is its priority, and foreign sales are seen as a profitable extension of domestic operations. Even though foreign markets may be vigorously pursued, the firm's orientation remains basically domestic. Its attitude toward international sales is typified by the belief that if it sells in St. Louis, it will sell anywhere else in the world.

If any efforts are made to adapt the marketing mix to foreign markets the firm's orientation is to market to foreign customers in the same manner in which the company markets to domestic customers. It seeks markets where demand is similar to the home market and its domestic product will be acceptable. This domestic market extension strategy can be very profitable; large and small exporting companies approach international, marketing from this perspective. Firms with this marketing approach are classified as ethnocentric. Meter Man discussed earlier could be said to follow this orientation.

- **Multi domestic Market Orientation:**

One a company recognizes the importance of differences in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multi-domestic market strategy. A company guided by this concept has a strong sense that country markets are vastly different (and they may be, depending on the product) and that market success requires an almost independent program for each country. Firms with this orientation market on a country by country basis, with separate marketing strategies for each country.

Subsidiaries operate independent of one another in establishing marketing objectives and plans, and the domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market with little coordination with other country markets; advertising campaigns are localized as are the pricing and distribution decisions. A company with this concept does not look for similarity among elements of the marketing mix that might respond to standardized; rather it aims for adaptation to local country markets. Control is typically decentralized to reflect the belief that the uniqueness of each market requires local marketing input and control. Forms with this orientation would, be classified as polycentric.

- **Global Market orientation:**

A company guided by the global marketing orientation or philosophy is generally referred to as a global company; its marketing activity is global, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies developing a standardized marketing mix applicable across boundaries. Markets are still segmented, but country or region is considered side by side with a variety of other segmentation variables, such as consumer characteristics (age, income, and language group), usage patterns and legal constraints. The world as a whole is viewed as the market, and the firm develops a global marketing strategy. The global marketing company would fit the region-centric or geocentric classifications. Coca-Cola Company, Ford Motor Company, and Intel are among the companies that can be described as global companies.

SELECTION OF EXPATRIATE MANAGERS:

An expatriate (often shortened to expat) is a person temporarily or permanently residing in a country other than that of the person's upbringing. The word comes from the Latin terms ex ("out of") and patria ("country, fatherland"). In common usage, the term is often used in the context of professionals or skilled workers sent abroad by their companies, rather than for all 'immigrants' or 'migrant workers'. The differentiation found in common usage usually comes down to socio-economic factors, so skilled professionals working in another country are described as expatriates, whereas a manual laborer who has moved to another country to earn more money might be labeled an 'immigrant' or 'migrant worker'.

There is no set definition and usage varies with context, for example the same person may be seen as an "expatriate" by their home country and a "migrant worker" where they work. Retirement abroad, in contrast, usually makes one an "expatriate".

INTERNATIONAL TRAINING AND DEVELOPMENT:

International training and management development are always closely associated in the management literature. Gregerson et al. (1998) proposed four strategies for developing global managers: international travel; the formation of diversified teams; international assignments and training.

These four strategies relate to expatriation management, particularly integrating international training and management development. Training aims to improve current work skills and behavior, whereas development aims to increase abilities in relation to some future position or job, usually a managerial one (Dowling et al., 1999, p. 155). A truly global manager needs a set of context-specific abilities, such as industry-specific knowledge, and a core of certain characteristics, such as cultural sensitivity, ability to handle responsibility, ability to

Develop subordinates and ability to exhibit and demonstrate (Baumgarten, 1992). These characteristics and skills are considered as important international competencies and all can be developed through effective international training and management development. International training refers to training for international assignments.

There are three broad types of international trainings in MNEs.

They are:

I. Preparatory training for expatriates: once a person has been appointed for an international assignment, pre-departure training is normally used to ensure the candidate has adequate skills and knowledge that are necessary for working abroad effectively.
II. Post-arrival training for expatriates: after an expatriate has gone abroad, further on-site training is often used to familiarize the expatriate with the local working environment and procedures.
III. Training for host-country nationals (HCNs) and third-country nationals (TCNs): Training should be provided to HCNs and TCNs to facilitate understanding of corporate strategy, corporate culture and socialization.