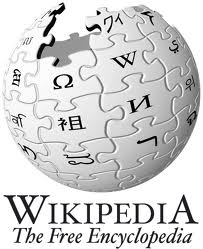
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[](#_2)**[](#_1.1)[](#_3)[](#_4)**

**Introduction**

More than 150 scientists from 50 countries all over the world took part in cooperation with the European Economic Chamber of Trade, Commerce and Industry, with the aim of creating exam questions for the **GCL - Global Commerce License***®* as one initial level of commercial academic education.

These thematically and carefully selected unified questionnaire, today in the era of computers, the Internet and the global economy, according to the opinion of many experts of the world, represents a basic need of knowledge for all employees, regardless of their previous qualifications.

The GCL program is very modern, effective and useful for all of those who intend to become entrepreneurs, as well as for all unemployed people, providing great help in finding adequate jobs and business success.

The Commerce is not just a trade like many are used to say; it has always been one of the fundamental academic skills. Now with **GCL***®* it is divided into four interdisciplinary modules:

* *ICT- Information and Communication Technologies*
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All these modules require about 800 hours of classic learning, equivalent to one academic semester. By validation of American-European Accreditation Council for Adult Education, dated 5th of May 2012, GCL can be recognized as the step into the academy study if candidates do not hold a university degree.

Authors of GCL are conscious that learning does not need to be expensive, especially today when people are using new technologies and World Wide Web as free scientific information source. Therefore, we have decided to use Wikipedia – a free encyclopedia, as one extremely wide and useful way for collecting information related to GCL topics. We believe that using this interesting way, as a global and multilingual information system, will provide you with all possibilities for learning much faster than classical classroom teaching. In the same time, there are many links leading to additional similar or connected information for those who would like to research more and deeper into the GCL topics and memorize our curriculum easier.

We wish you great success with GCL certificate in your further jobs.

GCL group of Authors



# 1.1ict

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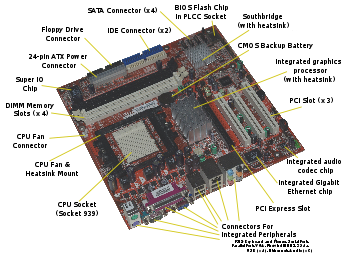
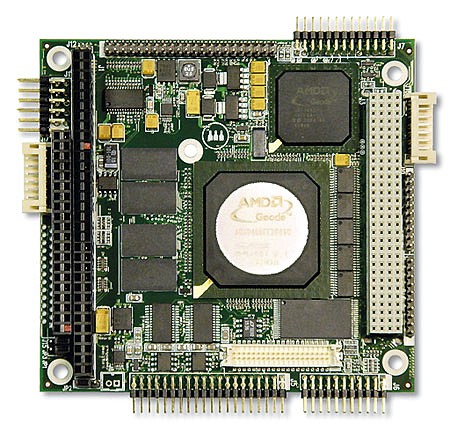
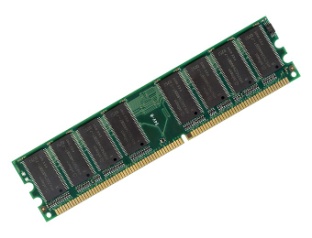
# I Hardware

Computer operation requires both hardware and software. Hardware design specifies a computer’s capability and software instructs the computer on what to do. Computer hardware is the collection of physical elements that comprise a [computer](http://en.wikipedia.org/wiki/Computer) system. It refers to the physical parts or components of computer such as monitor, keyboard, hard disk, mouse, etc.

## 

## Personal computer

A **personal computer** (**PC**) is any general-purpose [computer](http://en.wikipedia.org/wiki/Computer) whose size, capabilities, and original sales price make it useful for individuals, and which is intended to be operated directly by an [end-user](http://en.wikipedia.org/wiki/End-user) with no intervening computer operator. This contrasted with the batch processing or [time-sharing](http://en.wikipedia.org/wiki/Time-sharing_system)models which allowed larger, more expensive [minicomputer](http://en.wikipedia.org/wiki/Minicomputer) and [mainframe](http://en.wikipedia.org/wiki/Mainframe_computer) systems to be used by many people, usually at the same time. Large data processing systems require a full-time staff to operate efficiently. Software applications for personal computers include, but are not limited to, [word processing](http://en.wikipedia.org/wiki/Word_processing), [spreadsheets](http://en.wikipedia.org/wiki/Spreadsheets), [databases](http://en.wikipedia.org/wiki/Databases), [Web browsers](http://en.wikipedia.org/wiki/Web_browser) and [e-mail](http://en.wikipedia.org/wiki/E-mail)clients, [digital media](http://en.wikipedia.org/wiki/Digital_media) playback, [games](http://en.wikipedia.org/wiki/Personal_computer_game), and myriad personal productivity and special-purpose software applications. Modern personal computers often have connections to the [Internet](http://en.wikipedia.org/wiki/Internet), allowing access to the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) and a wide range of other resources. Personal computers may be connected to a [local area network](http://en.wikipedia.org/wiki/Local_area_network) (LAN), either by a cable or a wireless connection. A personal computer may be a [desktop computer](http://en.wikipedia.org/wiki/Desktop_computer) or a [laptop](http://en.wikipedia.org/wiki/Laptop), [tablet](http://en.wikipedia.org/wiki/Tablet_computer), or a[handheld PC](http://en.wikipedia.org/wiki/Handheld_PC).

* **Motherboard** - In [personal computers](http://en.wikipedia.org/wiki/Personal_computer), a **motherboard** is the central [printed circuit board](http://en.wikipedia.org/wiki/Printed_circuit_board) in many modern [computers](http://en.wikipedia.org/wiki/Computer) and holds many of the crucial components of the system, providing connectors for other peripherals. The motherboard is sometimes alternatively known as the **mainboard**, **system board**, **planar board** or, on [Apple](http://en.wikipedia.org/wiki/Apple_Inc.) computers, the [logic board](http://en.wikipedia.org/wiki/Logic_board).[[1]](http://en.wikipedia.org/wiki/Motherboard#cite_note-Engadget-0) It is also sometimes casually shortened to**mobo**. A motherboard, like a [backplane](http://en.wikipedia.org/wiki/Backplane), provides the electrical connections by which the other components of the system communicate, but unlike a backplane, it also connects the central processing unit and hosts other subsystems and devices. A typical [desktop computer](http://en.wikipedia.org/wiki/Desktop_computer) has its [microprocessor](http://en.wikipedia.org/wiki/Microprocessor), [main memory](http://en.wikipedia.org/wiki/Primary_storage), and other essential components connected to the motherboard. Other components such as [external storage](http://en.wikipedia.org/wiki/External_storage), controllers for [video](http://en.wikipedia.org/wiki/Video_card)display and [sound](http://en.wikipedia.org/wiki/Sound_card), and [peripheral](http://en.wikipedia.org/wiki/Peripheral) devices may be attached to the motherboard as plug-in cards or via cables, although in modern computers it is increasingly common to integrate some of these peripherals into the motherboard itself.
* **Central Processing Unit (CPU)** - The **central processing unit** (**CPU**, occasionally **central processor unit**[[1]](http://en.wikipedia.org/wiki/Cpu#cite_note-espin2-0)) is the hardware within a [computer](http://en.wikipedia.org/wiki/Computer) system which carries out the [instructions](http://en.wikipedia.org/wiki/Instruction_(computer_science)) of a [computer program](http://en.wikipedia.org/wiki/Computer_program) by performing the basic arithmetical, logical, and [input/output](http://en.wikipedia.org/wiki/Input/output) operations of the system. The CPU plays a role somewhat analogous to the [brain](http://en.wikipedia.org/wiki/Human_brain) in the computer. The term has been in use in the computer industry at least since the early 1960s.[[2]](http://en.wikipedia.org/wiki/Cpu#cite_note-weik1961-1) The form, design, and implementation of CPUs have changed dramatically since the earliest examples, but their fundamental operation remains much the same. On large machines, CPUs require one or more [printed circuit boards](http://en.wikipedia.org/wiki/Printed_circuit_board). On [personal computers](http://en.wikipedia.org/wiki/Personal_computers) and small workstations, the CPU is housed in a single [silicon chip](http://en.wikipedia.org/wiki/Silicon_chip) called a [microprocessor](http://en.wikipedia.org/wiki/Microprocessor). Since the 1970s the microprocessor class of CPUs has almost completely overtaken all other CPU implementations. Modern CPUs are large scale [integrated circuits](http://en.wikipedia.org/wiki/Integrated_circuit) in packages typically less than four centimeters square, with hundreds of connecting pins. Not all computational systems rely on a central processing unit. An array processor or [vector processor](http://en.wikipedia.org/wiki/Vector_processor) has multiple parallel computing elements, with no one unit considered the "center". In the [distributed computing](http://en.wikipedia.org/wiki/Distributed_computing) model, problems are solved by a distributed interconnected set of processors.
* **Random access memory (RAM)** is a form of computer data storage. One can read and over-write data in RAM.
* **Read-only memory (ROM)** is a class of storage medium used in computers and other electronic devices. Data stored in ROM cannot be modified - ROM is a type of memory that can be only read, as opposed to RAM which can be both read and written.
* **Hard Disk drive** - A **hard disk drive** (**HDD**; also **hard drive**, **hard disk**, or **disk drive**)[[2]](http://en.wikipedia.org/wiki/Hard_disk_drive#cite_note-1) is a device for storing and retrieving digital information, primarily computer data. It consists of one or more rigid (hence "hard") rapidly rotating discs ([platters](http://en.wikipedia.org/wiki/Hard_disk_platters)) coated with magnetic material, and with [magnetic heads](http://en.wikipedia.org/wiki/Disk_read-and-write_head) arranged to write data to the surfaces and read it from them. Hard drives are classified as [non-volatile](http://en.wikipedia.org/wiki/Non-volatile_storage), [random access](http://en.wikipedia.org/wiki/Random_access), [digital](http://en.wikipedia.org/wiki/Digital), [magnetic](http://en.wikipedia.org/wiki/Magnetic_storage), [data storage devices](http://en.wikipedia.org/wiki/Data_storage_device). Introduced by [IBM](http://en.wikipedia.org/wiki/IBM) in 1956, hard disk drives have decreased in cost and physical size over the years while dramatically increasing in capacity and speed.Hard disk drives have been the dominant device for [secondary storage](http://en.wikipedia.org/wiki/Secondary_storage) of data in [general purpose computers](http://en.wikipedia.org/wiki/History_of_general_purpose_CPUs) since the early 1960s.[[3]](http://en.wikipedia.org/wiki/Hard_disk_drive#cite_note-Mee-2) They have maintained this position because advances in their recording capacity, cost, reliability, and speed have kept pace with the requirements for secondary storage.[[3]](http://en.wikipedia.org/wiki/Hard_disk_drive#cite_note-Mee-2)

## Functions of a computer system

*The four basic functions* of a computer are input, processing, output and storage:

* **Input** is the information which is entered into the computer.
* **Processing** is performing operations on or manipulating data.
* **Output** is the result of the data processing.
* **Storage** refers to devices that can retain the data when the computer is deactivated.

The central processing unit (CPU) does process the data. Devices such as read only memory (ROM), the hard drive, compact disks (CDs) and digital versatile disks (DVDs) can store the data. When you input information into your computer with the mouse or keyboard, you're sending a signal to the CPU. The CPU has a logic unit that can do basic arithmetic. The control unit directs the computer to execute programs that have been stored in memory. The speed by which a computer executes programs is measured in millions of instructions per second (MIPS); the processor's speed is measured in gigahertz (GHz). When the information has been processed, it is output in a human-readable form through the monitor and speakers. It can also be stored again for later processing. Storage media can be used to both input and output data.  
  
The four basic functions of a computer make it possible for us to perform many tasks that were previously impossible. Using a computer, you can balance your checkbook, purchase merchandise, send and receive messages, do research, process your photographs, create music and store crucial data, among other things. If you have essential computer skills you can find better employment for higher pay. Because computers are easily networked, they can help people from remote parts of the world communicate more quickly and easily than with traditional methods.

Computers can be addictive. Computer gaming, in particular, can cause people to abandon taking care of essential responsibilities. Working long hours at a computer can contribute to eye strain, repetitive strain injury (RSI) and lower back pain. Many people may forget to eat or exercise when on a computer for long periods. Using ergonomic devices and furniture and taking frequent breaks can help to prevent many of these computer-related health issues (see Resources below).

## Units of measure

A unit of measurement is a definite magnitude of a physical quantity, defined and adopted by convention and/or by law, that is used as a standard for measurement of the same physical quantity. In [computing](http://en.wikipedia.org/wiki/Computing) and [telecommunications](http://en.wikipedia.org/wiki/Telecommunication), a **unit of information** is the capacity of some standard [data](http://en.wikipedia.org/wiki/Data) storage system or [communication channel](http://en.wikipedia.org/wiki/Communication_channel), used to measure the capacities of other systems and channels. In [information theory](http://en.wikipedia.org/wiki/Information_theory), units of information are also used to measure the [information](http://en.wikipedia.org/wiki/Information) contents or [entropy](http://en.wikipedia.org/wiki/Entropy) of random variables.

The most common units are the bit, the capacity of a system which can exist in only two states, and the byte (or octet), which is equivalent to eight bits. Multiples of these units can be formed from these with the [SI prefixes](http://en.wikipedia.org/wiki/SI_prefixes) (power-of-ten prefixes) or the newer IEC [binary prefixes](http://en.wikipedia.org/wiki/Binary_prefix) (binary power prefixes). Information capacity is a [dimensionless quantity](http://en.wikipedia.org/wiki/Dimensionless_quantity), because it refers to a count of binary symbols.

* A **bit** (a contraction of **binary digit**) is the [basic capacity](http://en.wikipedia.org/wiki/Units_of_information) of [information](http://en.wikipedia.org/wiki/Information) in [computing](http://en.wikipedia.org/wiki/Computing) and [telecommunications](http://en.wikipedia.org/wiki/Telecommunication);a bit represents either 1 or 0 (one or zero) only. The representation may be implemented, in a variety of systems, by means of a two state device. In [computing](http://en.wikipedia.org/wiki/Computing), a bit can be defined as a [variable](http://en.wikipedia.org/wiki/Variable_(computer_science)) or computed quantity that can have only two possible [values](http://en.wikipedia.org/wiki/Value_(computer_science)). These two values are often interpreted as [binary digits](http://en.wikipedia.org/wiki/Binary_notation) and are usually denoted by the [numerical digits](http://en.wikipedia.org/wiki/Numerical_digit) 0 and 1. The two values can also be interpreted as [logical values](http://en.wikipedia.org/wiki/Truth_value) (*true*/*false*, *yes*/*no*), algebraic [signs](http://en.wikipedia.org/wiki/Signed_number) (*+*/*−*), activation states (*on*/*off*), or any other two-valued attribute. The correspondence between these values and the physical states of the underlying [storage](http://en.wikipedia.org/wiki/Data_storage_device) or [device](http://en.wikipedia.org/wiki/Computing_device) is a matter of convention, and different assignments may be used even within the same device or [program](http://en.wikipedia.org/wiki/Computer_program). The length of a binary number may be referred to as its "[bit-length](http://en.wikipedia.org/wiki/Bit-length)." In [information theory](http://en.wikipedia.org/wiki/Information_theory), one bit is typically defined as the uncertainty of a binary random variable that is 0 or 1 with equal probability,[[1]](http://en.wikipedia.org/wiki/Bit#cite_note-0) or the information that is gained when the value of such a variable becomes known.[[2]](http://en.wikipedia.org/wiki/Bit#cite_note-1) In [quantum computing](http://en.wikipedia.org/wiki/Quantum_computing), a *quantum bit* or [*qubit*](http://en.wikipedia.org/wiki/Qubit) is a [quantum system](http://en.wikipedia.org/wiki/Quantum_mechanics) that can exist in [superposition](http://en.wikipedia.org/wiki/Quantum_superposition) of two bit values, "true" and "false".
* The **byte** is a [unit of digital information](http://en.wikipedia.org/wiki/Units_of_information) in [computing](http://en.wikipedia.org/wiki/Computing) and [telecommunications](http://en.wikipedia.org/wiki/Telecommunications) that most commonly consists of eight [bits](http://en.wikipedia.org/wiki/Bit). Historically, a byte was the number of bits used to encode a single[character](http://en.wikipedia.org/wiki/Character_(computing)) of text in a computer[[1]](http://en.wikipedia.org/wiki/Byte#cite_note-Bemer1962-0)[[2]](http://en.wikipedia.org/wiki/Byte#cite_note-1) and for this reason it is the basic [addressable](http://en.wikipedia.org/wiki/Address_space) element in many [computer architectures](http://en.wikipedia.org/wiki/Computer_architecture). The size of the byte has historically been hardware dependent and no definitive standards existed that mandated the size. The [*de facto* standard](http://en.wikipedia.org/wiki/De_facto_standard) of eight bits is a convenient [power of two](http://en.wikipedia.org/wiki/Power_of_two) permitting the values 0 through 255 for one byte. With ISO/IEC 80000-13, this common meaning was codified in a formal standard. Many types of applications use variables representable in eight or fewer bits, and processor designers optimize for this common usage. The popularity of major commercial computing architectures have aided in the ubiquitous acceptance of the 8-bit size.[[3]](http://en.wikipedia.org/wiki/Byte#cite_note-2)
* The **kilobyte** (symbol: **kB**) is a multiple of the unit [byte](http://en.wikipedia.org/wiki/Byte) for [digital information](http://en.wikipedia.org/wiki/Computer_data_storage). Although the prefix *kilo-* means 1000, the term *kilobyte* and symbol *kB*or *KB* have historically been used to refer to either 1024 (210) bytes or 1000 (103) bytes, dependent upon context, in the fields of [computer science](http://en.wikipedia.org/wiki/Computer_science) and[information technology](http://en.wikipedia.org/wiki/Information_technology).[[1]](http://en.wikipedia.org/wiki/Kilobyte#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Kilobyte#cite_note-1)[[3]](http://en.wikipedia.org/wiki/Kilobyte#cite_note-2)
* The **megabyte** is a multiple of the unit [byte](http://en.wikipedia.org/wiki/Byte) for digital information [storage](http://en.wikipedia.org/wiki/Computer_storage) or transmission with three different values depending on context: 1048576bytes (220) generally for computer memory;[[1]](http://en.wikipedia.org/wiki/Megabyte#cite_note-AHSD-0)[[2]](http://en.wikipedia.org/wiki/Megabyte#cite_note-IU-1) and one million [bytes](http://en.wikipedia.org/wiki/Byte) (106, see prefix [mega-](http://en.wikipedia.org/wiki/Mega-)) generally for computer storage.[[1]](http://en.wikipedia.org/wiki/Megabyte#cite_note-AHSD-0)[[3]](http://en.wikipedia.org/wiki/Megabyte#cite_note-NIST-2) In rare cases, it is used to mean 1000×1024 (1024000) bytes.[[3]](http://en.wikipedia.org/wiki/Megabyte#cite_note-NIST-2) The [IEEE Standards](http://en.wikipedia.org/wiki/IEEE_Standards) Board has confirmed that *mega-* means 1000000, with exceptions allowed for the base-two meaning.[[3]](http://en.wikipedia.org/wiki/Megabyte#cite_note-NIST-2) It is commonly abbreviated as **Mbyte** or **MB** (compare Mb, for the [megabit](http://en.wikipedia.org/wiki/Megabit)).
* The **gigabyte** is a multiple of the unit [byte](http://en.wikipedia.org/wiki/Byte) for [digital information storage](http://en.wikipedia.org/wiki/Computer_data_storage). The [prefix](http://en.wikipedia.org/wiki/SI_prefix) [*giga*](http://en.wikipedia.org/wiki/Giga-)means 109 in the [International System of Units](http://en.wikipedia.org/wiki/International_System_of_Units) (SI), therefore 1 gigabyte is 1000000000 bytes. The unit symbol for the gigabyte is GB or Gbyte, but not Gb (lower case b) which is typically used for the [gigabit](http://en.wikipedia.org/wiki/Gigabit).. Historically, the term has also been used in some fields of computer science and information technology to denote the [gibibyte](http://en.wikipedia.org/wiki/Gibibyte), or 1073741824 (10243 or 230) bytes.
* The **terabyte** is a multiple of the unit [byte](http://en.wikipedia.org/wiki/Byte) for [digital information](http://en.wikipedia.org/wiki/Computer_data_storage). The [prefix](http://en.wikipedia.org/wiki/SI_prefix) [*tera*](http://en.wikipedia.org/wiki/Tera-) means 1012 in the [International System of Units](http://en.wikipedia.org/wiki/International_System_of_Units) (SI), and therefore 1 terabyte is 1000000000000bytes, or 1 [trillion](http://en.wikipedia.org/wiki/Orders_of_magnitude_(numbers)#1012) ([short scale](http://en.wikipedia.org/wiki/Short_scale)) bytes, or 1000 gigabytes. 1 terabyte in [binary prefixes](http://en.wikipedia.org/wiki/Binary_prefix) is 0.9095 [tebibytes](http://en.wikipedia.org/wiki/Tebibytes), or 931.32[gibibytes](http://en.wikipedia.org/wiki/Gibibytes). The unit symbol for the terabyte is **TB** or *TByte*, but not *Tb* (lower case *b*) which refers to [*terabit*](http://en.wikipedia.org/wiki/Terabit).
* A **petabyte (derived from the**[**SI prefix**](http://en.wikipedia.org/wiki/SI_prefix)[***peta-***](http://en.wikipedia.org/wiki/Peta-)**) is a unit of**[**information**](http://en.wikipedia.org/wiki/Information)**equal to one**[**quadrillion**](http://en.wikipedia.org/wiki/Quadrillion)**(**[**short scale**](http://en.wikipedia.org/wiki/Long_and_short_scales)**)**[**bytes**](http://en.wikipedia.org/wiki/Byte)**, or 1024**[**terabytes**](http://en.wikipedia.org/wiki/Terabytes)**. The unit symbol for the petabyte is PB. The prefix *peta* (P) indicates the fifth power to 1000:**

1 PB = 1000000000000000B = 10005 B = 1015 B = 1 million gigabytes = 1 thousand terabytes

The [pebibyte](http://en.wikipedia.org/wiki/Pebibyte) (PiB), using a [binary prefix](http://en.wikipedia.org/wiki/Binary_prefix), is the corresponding power of 1024, which is more than 12% greater (250 bytes = 1125899906842624bytes).

***Table of units of measure***

Unit Equivalent

1 kilobyte (KB) 1,024 bytes

1 megabyte (MB) 1,048,576 bytes (1,024 KB)

1 gigabyte (GB) 1,073,741,824 bytes (1,024 MB)

1 terabyte (TB) 1,099,511,627,776 bytes (1,024 GB)

1 petabyte (PB) 1,125,899,906,842,624 bytes (1,024 TB)

## Computer Memory

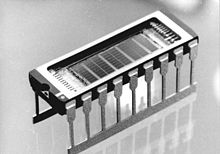
In [computing](http://en.wikipedia.org/wiki/Computing), **memory** refers to the physical devices used to store programs (sequences of instructions) or data (e.g. program [state information](http://en.wikipedia.org/wiki/State_(computer_science))) on a temporary or permanent basis for use in a [computer](http://en.wikipedia.org/wiki/Computer) or other [digital](http://en.wikipedia.org/wiki/Digital) [electronic](http://en.wikipedia.org/wiki/Electronics) device. The term [primary memory](http://en.wikipedia.org/wiki/Primary_memory) is used for the information in physical systems which are fast (i.e. [RAM](http://en.wikipedia.org/wiki/RAM)), as a distinction from [secondary memory](http://en.wikipedia.org/wiki/Secondary_memory), which are physical devices for [program and data storage](http://en.wikipedia.org/wiki/Computer_data_storage) which are slow to access but offer higher memory capacity. Primary memory stored on secondary memory is called "[virtual memory](http://en.wikipedia.org/wiki/Virtual_memory)".

The term "storage" is often (but not always) used in separate computers of traditional [secondary memory](http://en.wikipedia.org/wiki/Secondary_memory) such as tape, magnetic disks and optical discs ([CD-ROM](http://en.wikipedia.org/wiki/CD-ROM) and [DVD-ROM](http://en.wikipedia.org/wiki/DVD-ROM)). The term "memory" is often (but not always) associated with addressable [semiconductor memory](http://en.wikipedia.org/wiki/Semiconductor_memory), i.e. [integrated circuits](http://en.wikipedia.org/wiki/Integrated_circuits) consisting of[silicon](http://en.wikipedia.org/wiki/Silicon)-based [transistors](http://en.wikipedia.org/wiki/Transistors), used for example as [primary memory](http://en.wikipedia.org/wiki/Primary_memory) but also other purposes in computers and other [digital](http://en.wikipedia.org/wiki/Digital) [electronic](http://en.wikipedia.org/wiki/Electronics) devices.

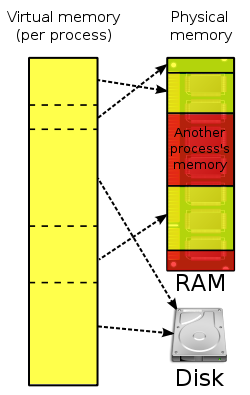
There are two main types of semiconductor memory: [volatile](http://en.wikipedia.org/wiki/Volatile_memory) and [non-volatile](http://en.wikipedia.org/wiki/Non-volatile_memory). Examples of [non-volatile memory](http://en.wikipedia.org/wiki/Non-volatile_memory) are [flash memory](http://en.wikipedia.org/wiki/Flash_memory) (sometimes used as secondary, sometimes primary computer memory) and [ROM](http://en.wikipedia.org/wiki/Read-only_memory)/[PROM](http://en.wikipedia.org/wiki/Programmable_read-only_memory)/[EPROM](http://en.wikipedia.org/wiki/EPROM)/[EEPROM](http://en.wikipedia.org/wiki/EEPROM) memory (used for [firmware](http://en.wikipedia.org/wiki/Firmware) such as boot programs). Examples of [volatile memory](http://en.wikipedia.org/wiki/Volatile_memory) are[primary memory](http://en.wikipedia.org/wiki/Primary_memory) (typically dynamic [RAM](http://en.wikipedia.org/wiki/RAM), [DRAM](http://en.wikipedia.org/wiki/DRAM)), and fast [CPU cache](http://en.wikipedia.org/wiki/CPU_cache) memory (typically static RAM, [SRAM](http://en.wikipedia.org/wiki/Static_random-access_memory), which is fast but energy-consuming and offer lower memory capacity per area unit than DRAM) .

The semiconductor memory is organized into [memory cells](http://en.wikipedia.org/wiki/Computer_data_storage) or [bistable flip-flops](http://en.wikipedia.org/wiki/Bistable_flip-flop), each storing one binary [bit](http://en.wikipedia.org/wiki/Bit) (0 or 1). The memory cells are grouped into words of fix [word length](http://en.wikipedia.org/wiki/Word_length), for example 1, 2, 4, 8, 16, 32, 64 or 128 bit. Each word can be accessed by a binary address of *N* bit, making it possible to store 2 raised by *N*words in the memory. This implies that [processor](http://en.wikipedia.org/wiki/CPU) [registers](http://en.wikipedia.org/wiki/Processor_register) normally are not considered as memory, since they only store one word and do not include an addressing mechanism.

## Random access memory (RAM)

**Random access memory** (**RAM**) is a form of [computer data storage](http://en.wikipedia.org/wiki/Computer_data_storage). Today, it takes the form of [integrated circuits](http://en.wikipedia.org/wiki/Integrated_circuit) that allow stored [data](http://en.wikipedia.org/wiki/Data) to be accessed in any order with a worst case performance of [constant time](http://en.wikipedia.org/wiki/Constant_time).

One can read and over-write data in RAM. Many computer systems have a memory hierarchy consisting of [CPU registers](http://en.wikipedia.org/wiki/CPU_register), on-die [SRAM](http://en.wikipedia.org/wiki/Static_random_access_memory) caches, external [caches](http://en.wikipedia.org/wiki/CPU_cache), [DRAM](http://en.wikipedia.org/wiki/DRAM), [paging](http://en.wikipedia.org/wiki/Paging) systems, and [virtual memory](http://en.wikipedia.org/wiki/Virtual_memory) or [swap space](http://en.wikipedia.org/wiki/Swap_space) on a hard drive. This entire pool of memory may be referred to as "RAM" by many developers, even though the various subsystems can have very different [access times](http://en.wikipedia.org/wiki/Access_time), violating the original concept behind the *random access* term in RAM. Even within a hierarchy level such as DRAM, the specific row, column, bank, [rank](http://en.wikipedia.org/wiki/Memory_rank), channel, or [interleave](http://en.wikipedia.org/wiki/Interleave) organization of the components make the access time variable, although not to the extent that rotating [storage media](http://en.wikipedia.org/wiki/Storage_media) or a tape is variable. The overall goal of using a memory hierarchy is to obtain the higher possible average access performance while minimizing the total cost of the entire memory system (generally, the memory hierarchy follows the access time with the fast CPU registers at the top and the slow hard drive at the bottom). In many modern personal computers, the RAM comes in an easily upgraded form of modules called [memory modules](http://en.wikipedia.org/wiki/DIMM) or DRAM modules about the size of a few sticks of chewing gum. These can quickly be replaced should they become damaged or when changing needs demand more storage capacity. As suggested above, smaller amounts of RAM (mostly SRAM) are also integrated in the[CPU](http://en.wikipedia.org/wiki/CPU) and other [ICs](http://en.wikipedia.org/wiki/Integrated_circuit) on the [motherboard](http://en.wikipedia.org/wiki/Motherboard), as well as in hard-drives, [CD-ROMs](http://en.wikipedia.org/wiki/CD-ROM), and several other parts of the computer system.

In addition to serving as temporary storage and working space for the operating system and applications, RAM is used in numerous other ways.

## Virtual memory

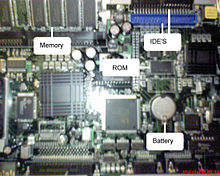
***Virtual memory*** - In [computing](http://en.wikipedia.org/wiki/Computing), **virtual memory** is a [memory management](http://en.wikipedia.org/wiki/Memory_management) technique developed for [multitasking](http://en.wikipedia.org/wiki/Computer_multitasking) [kernels](http://en.wikipedia.org/wiki/Kernel_(computing)). This technique [virtualizes](http://en.wikipedia.org/wiki/Hardware_virtualization) a [computer architecture](http://en.wikipedia.org/wiki/Computer_architecture)'s various forms of [computer data storage](http://en.wikipedia.org/wiki/Computer_data_storage) (such as [random-access memory](http://en.wikipedia.org/wiki/Random-access_memory) and [disk storage](http://en.wikipedia.org/wiki/Disk_storage)), allowing a [program](http://en.wikipedia.org/wiki/Application_software) to be designed as though there is only one kind of memory, "virtual" memory, which behaves like directly addressable read/write memory (RAM). Virtual memory makes application programming easier by hiding [fragmentation](http://en.wikipedia.org/wiki/Fragmentation_(computer)) of physical memory; by delegating to the kernel the burden of managing the [memory hierarchy](http://en.wikipedia.org/wiki/Computer_data_storage#Hierarchy_of_storage) (eliminating the need for the program to handle [overlays](http://en.wikipedia.org/wiki/Overlay_(programming)) explicitly); and, when each process is run in its own dedicated address space, by obviating the need [to relocate](http://en.wikipedia.org/wiki/Relocation_(computer_science)) program code or to access memory with [relative addressing](http://en.wikipedia.org/wiki/Addressing_mode#PC-relative). [Memory virtualization](http://en.wikipedia.org/wiki/Memory_virtualization) is a generalization of the concept of virtual memory. Virtual memory is an integral part of a [computer architecture](http://en.wikipedia.org/wiki/Computer_architecture); implementations require hardware support, typically in the form of a [memory management unit](http://en.wikipedia.org/wiki/Memory_management_unit) built into the [CPU](http://en.wikipedia.org/wiki/Central_processing_unit). While not necessary, [emulators](http://en.wikipedia.org/wiki/Emulators) and [virtual machines](http://en.wikipedia.org/wiki/Virtual_machine) can employ hardware support to increase performance of their virtual memory implementations.[[1]](http://en.wikipedia.org/wiki/Virtual_memory#cite_note-1)

## RAM disk

***RAM disk*** - A **RAM disk** or **RAM drive** is a block of [RAM](http://en.wikipedia.org/wiki/Random-access_memory) ([primary storage](http://en.wikipedia.org/wiki/Primary_storage) or [volatile memory](http://en.wikipedia.org/wiki/Volatile_memory)) that a computer's software is treating as if the memory were a [disk drive](http://en.wikipedia.org/wiki/Disk_drive) ([secondary storage](http://en.wikipedia.org/wiki/Secondary_storage)). It is sometimes referred to as a "virtual RAM drive" or "software RAM drive" to distinguish it from a "hardware RAM drive" that uses separate hardware containing RAM, which is a type of [solid-state drive](http://en.wikipedia.org/wiki/Solid-state_drive).

***Shadow RAM*** - Sometimes, the contents of a relatively slow ROM chip are copied to read/write memory to allow for shorter access times. The ROM chip is then disabled while the initialized memory locations are switched in on the same block of addresses (often write-protected). This process, sometimes called *shadowing*, is fairly common in both computers and [embedded systems](http://en.wikipedia.org/wiki/Embedded_systems).

## Read-only memory (ROM)

**Read-only memory** (**ROM**) is a class of [storage](http://en.wikipedia.org/wiki/Computer_storage) medium used in [computers](http://en.wikipedia.org/wiki/Computer) and other electronic devices. Data stored in ROM cannot be modified, as opposed to RAM which can be both read and written. Since it cannot be modified, ROM memory is suitable for storing data. To that end, ROM has been used in many computers to store [look-up tables](http://en.wikipedia.org/wiki/Look-up_table) for the evaluation of mathematical and logical functions (for example, a [floating-point unit](http://en.wikipedia.org/wiki/Floating-point_unit) might [tabulate the sine function](http://en.wikipedia.org/wiki/Look-up_table#Sine_Table_Example) in order to facilitate faster computation). This was especially effective when [CPUs](http://en.wikipedia.org/wiki/CPU) were slow and ROM was cheap compared to RAM.

## Flash memory

**Flash memory** is a [non-volatile](http://en.wikipedia.org/wiki/Non-volatile_memory) [computer storage](http://en.wikipedia.org/wiki/Computer_storage) chip that can be electrically erased and reprogrammed. It was developed from [EEPROM](http://en.wikipedia.org/wiki/EEPROM) (electrically erasable programmable read-only memory) and must be erased in fairly large blocks before these can be rewritten with new data. The high density NAND type must also be programmed and read in (smaller) blocks, or pages, while the NOR type allows a single [machine word](http://en.wikipedia.org/wiki/Machine_word) (byte) to be written or read independently. The NAND type is primarily used in [memory cards](http://en.wikipedia.org/wiki/Memory_card), [USB flash drives](http://en.wikipedia.org/wiki/USB_flash_drive), [solid-state drives](http://en.wikipedia.org/wiki/Solid-state_drive), and similar products, for general storage and transfer of data. Example applications of both types of flash memory include personal computers, [PDAs](http://en.wikipedia.org/wiki/Personal_digital_assistant), digital audio players, [digital cameras](http://en.wikipedia.org/wiki/Digital_camera), mobile phones, synthesizers, video games, [scientific instrumentation](http://en.wikipedia.org/wiki/Scientific_instrument), [industrial robotics](http://en.wikipedia.org/wiki/Industrial_robotics), [medical electronics](http://en.wikipedia.org/wiki/Medical_electronics), and so on. In addition to being non-volatile, flash memory offers fast read[access times](http://en.wikipedia.org/wiki/Access_time), as fast as [dynamic RAM](http://en.wikipedia.org/wiki/Dynamic_RAM), although not as fast as [static RAM](http://en.wikipedia.org/wiki/Static_RAM) or ROM. Its mechanical shock resistance helps explain its popularity over [hard disks](http://en.wikipedia.org/wiki/Hard_disk)in portable devices; as does its high durability, being able to withstand high pressure, temperature, immersion in water etc.[[1]](http://en.wikipedia.org/wiki/Flash_memory#cite_note-0)

## CPU cache

A **CPU cache** is a [cache](http://en.wikipedia.org/wiki/Cache_(computing)) used by the [central processing unit](http://en.wikipedia.org/wiki/Central_processing_unit) of a [computer](http://en.wikipedia.org/wiki/Computer) to reduce the average time to access [memory](http://en.wikipedia.org/wiki/Computer_storage). The cache is a smaller, faster memory which stores copies of the data from the most frequently used [main memory](http://en.wikipedia.org/wiki/Main_memory) locations. As long as most memory accesses are cached memory locations, the average [latency](http://en.wikipedia.org/wiki/RAM_latency) of memory accesses will be closer to the cache latency than to the latency of main memory.

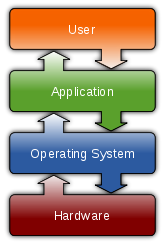
## Input and output devices

In [computing](http://en.wikipedia.org/wiki/Computing), **input/output**, or **I/O**, refers to the communication between an [information processing system](http://en.wikipedia.org/wiki/Information_processing_system) (such as a [computer](http://en.wikipedia.org/wiki/Computer)), and the outside world, possibly a human, or another information processing system. [Inputs](http://en.wikipedia.org/wiki/Information) are the signals or data received by the system, and [outputs](http://en.wikipedia.org/wiki/Output) are the signals or data sent from it. The term can also be used as part of an action; to "perform I/O" is to perform an [input or output operation](http://en.wikipedia.org/wiki/I/O_scheduling). I/O devices are used by a person (or other system) to communicate with a computer. For instance, a [keyboard](http://en.wikipedia.org/wiki/Computer_keyboard) or a [mouse](http://en.wikipedia.org/wiki/Computer_mouse) may be an input device for a computer, while[monitors](http://en.wikipedia.org/wiki/Computer_monitor) and [printers](http://en.wikipedia.org/wiki/Computer_printer) are considered output devices for a computer. Devices for communication between computers, such as [modems](http://en.wikipedia.org/wiki/Modem) and [network cards](http://en.wikipedia.org/wiki/Network_card), typically serve for both input and output.

Note that the designation of a device as either input or output depends on the perspective. Mouse and keyboards take as input physical movement that the human user outputs and convert it into signals that a computer can understand. The output from these devices is input for the computer. Similarly, printers and monitors take as input signals that a computer outputs. They then convert these signals into representations that human users can see or read. For a human user the process of reading or seeing these representations is receiving input. These interactions between computers and humans is studied in a field called [human–computer interaction](http://en.wikipedia.org/wiki/Human%E2%80%93computer_interaction).

* In [computing](http://en.wikipedia.org/wiki/Computing), an **input device** is any [peripheral](http://en.wikipedia.org/wiki/Peripheral) (piece of [computer hardware](http://en.wikipedia.org/wiki/Computer_hardware) equipment) used to provide data and control signals to an [information processing system](http://en.wikipedia.org/wiki/Information_processing_system) such as a [computer](http://en.wikipedia.org/wiki/Computer) or other [information appliance](http://en.wikipedia.org/wiki/Information_appliance). Input and [output devices](http://en.wikipedia.org/wiki/Output_device) make up the hardware interface between a computer and a [scanner](http://en.wikipedia.org/wiki/Image_scanner) or [6DOF](http://en.wikipedia.org/wiki/Six_degrees_of_freedom) controller.Types of Input devices are:
  + **Keyboard** - A 'keyboard' is a human interface device which is represented as a layout of buttons. Each button, or key, can be used to either input a linguistic character to a computer, or to call upon a particular function of the computer. Traditional keyboards use spring-based buttons, though newer variations employ virtual keys, or even projected keyboards.
  + **Pointing devices** - A **pointing device** is an input interface (specifically a [human interface device](http://en.wikipedia.org/wiki/Human_interface_device)) that allows a user to input spatial (i.e., continuous and multi-dimensional) data to a [computer](http://en.wikipedia.org/wiki/Computer). [CAD](http://en.wikipedia.org/wiki/Computer-aided_design) systems and [graphical user interfaces](http://en.wikipedia.org/wiki/Graphical_user_interface) (GUI) allow the user to control and provide data to the computer using physical [gestures](http://en.wikipedia.org/wiki/Mouse_gesture) — point, click, and drag — for example, by moving a hand-held [mouse](http://en.wikipedia.org/wiki/Mouse_(computing)) across the surface of the physical desktop and activating switches on the mouse. Movements of the pointing device are echoed on the screen by movements of the [pointer](http://en.wikipedia.org/wiki/Pointer_(computing_WIMP)) (or [cursor](http://en.wikipedia.org/wiki/Cursor_(computers))) and other visual changes. While the most common pointing device by far is the mouse, many more devices have been developed. A "rodent" is a technical term referring to a device which generates mouse-like input. However, the term "mouse" is commonly used as a metaphor for devices that move the cursor.
  + **Composite devices** - Input devices, such as buttons and joysticks, can be combined on a single physical device that could be thought of as a composite device. Many gaming devices have controllers like this. Technically mice are composite devices, as they both track movement and provide buttons for clicking, but composite devices are generally considered to have more than two different forms of input.
  + **Imaging and Video input devices** such as digital camera, web camera, scanners, bar code readers, etc.
  + **Audio** input devices such as microphone
* An **output device** is any piece of [computer hardware](http://en.wikipedia.org/wiki/Computer_hardware) equipment used to communicate the results of [data processing](http://en.wikipedia.org/wiki/Data_processing) carried out by an [information processing system](http://en.wikipedia.org/wiki/Information_processing_system) (such as a [computer](http://en.wikipedia.org/wiki/Computer)) which converts the electronically generated information into human-readable form.[[1]](http://en.wikipedia.org/wiki/Output_device#cite_note-NIOS-0)[[2]](http://en.wikipedia.org/wiki/Output_device#cite_note-PC_Mag-1) There are many input and output devices such as [multifunction printers](http://en.wikipedia.org/wiki/Multifunction_printer) and [computer-based navigation systems](http://en.wikipedia.org/wiki/Navigation_system) that are used for specialised or unique applications.[[1]](http://en.wikipedia.org/wiki/Output_device#cite_note-NIOS-0) In computing, [input/output](http://en.wikipedia.org/wiki/Input/output), or I/O, refers to the communication between an [information processing system](http://en.wikipedia.org/wiki/Information_processing_system) (such as a [computer](http://en.wikipedia.org/wiki/Computer)), and the outside world. Inputs are the signals or data received by the system, and outputs are the signals or data sent from it. Some types of **output devices** are speakers, headphones, printers, projectors, television, monitor, etc.

# II SOFTWARE



**Computer software**, or just **software**, is a collection of [computer programs](http://en.wikipedia.org/wiki/Computer_program) and related [data](http://en.wikipedia.org/wiki/Data) that provides the instructions for telling a [computer](http://en.wikipedia.org/wiki/Computer) what to do and how to do it. Software refers to one or more computer programs and data held in the storage of the computer for some purposes. In other words, software is a set of *programs, procedures, algorithms* and its *documentation* concerned with the operation of a data processing system. Program software performs the [function](http://en.wikipedia.org/wiki/Function_(engineering)) of the [program](http://en.wikipedia.org/wiki/Computer_program) it implements, either by directly providing [instructions](http://en.wikipedia.org/wiki/Instruction_(computer_science)) to the computer hardware or by serving as input to another piece of software. The [term](http://en.wikipedia.org/wiki/Terminology) was coined to contrast to the old term [hardware](http://en.wikipedia.org/wiki/Computer_hardware) (meaning physical devices). In contrast to hardware, software "cannot be touched".[[1]](http://en.wikipedia.org/wiki/Software#cite_note-0) Software is also sometimes used in a more narrow sense, meaning [application software](http://en.wikipedia.org/wiki/Application_software) only. Sometimes the term includes data that has not traditionally been associated with computers, such as film, tapes, and records.[[2]](http://en.wikipedia.org/wiki/Software#cite_note-1)

[Computer](http://en.wikipedia.org/wiki/Computer) software is so called to distinguish it from [computer hardware](http://en.wikipedia.org/wiki/Computer_hardware), which encompasses the physical interconnections and devices required to store and execute (or run) the software. At the lowest level, executable code consists of machine language instructions specific to an individual processor. A machine language consists of groups of binary values signifying processor instructions that change the state of the computer from its preceding state. Programs are an ordered sequence of instructions for changing the state of the computer in a particular sequence. It is usually written in [high-level programming languages](http://en.wikipedia.org/wiki/High-level_programming_language) that are easier and more efficient for humans to use (closer to [natural language](http://en.wikipedia.org/wiki/Natural_language)) than machine language. High-level languages are compiled or interpreted into machine language object code. Software may also be written in an [assembly language](http://en.wikipedia.org/wiki/Assembly_language), essentially, a mnemonic representation of a machine language using a natural language alphabet. Assembly language must be assembled into object code via an [assembler](http://en.wikipedia.org/wiki/Assemblers).

Software includes all the various forms and roles that digitally stored *data* may have and play in a computer (or similar system), regardless of whether the data is used as *code* for a CPU, or other [interpreter](http://en.wikipedia.org/wiki/Interpreter), or whether it represents other kinds of [information](http://en.wikipedia.org/wiki/Information). Software thus encompasses a wide array of products that may be developed using different techniques such as ordinary [programming languages](http://en.wikipedia.org/wiki/Programming_languages), [scripting languages](http://en.wikipedia.org/wiki/Scripting_languages), [microcode](http://en.wikipedia.org/wiki/Microcode), or an [FPGA](http://en.wikipedia.org/wiki/Field-programmable_gate_array) configuration.

The types of software include [web pages](http://en.wikipedia.org/wiki/Web_pages) developed in languages and frameworks like [HTML](http://en.wikipedia.org/wiki/HTML), [PHP](http://en.wikipedia.org/wiki/PHP), [Perl](http://en.wikipedia.org/wiki/Perl), [JSP](http://en.wikipedia.org/wiki/JavaServer_Pages), [ASP.NET](http://en.wikipedia.org/wiki/ASP.NET), [XML](http://en.wikipedia.org/wiki/XML), and [desktop applications](http://en.wikipedia.org/wiki/Desktop_application) like[OpenOffice.org](http://en.wikipedia.org/wiki/OpenOffice.org), [Microsoft Word](http://en.wikipedia.org/wiki/Microsoft_Word) developed in languages like [C](http://en.wikipedia.org/wiki/C_(programming_language)), [C++](http://en.wikipedia.org/wiki/C%2B%2B), [Objective-C](http://en.wikipedia.org/wiki/Objective-C), [Java](http://en.wikipedia.org/wiki/Java_(programming_language)), [C#](http://en.wikipedia.org/wiki/C_Sharp_(programming_language)), or [Smalltalk](http://en.wikipedia.org/wiki/Smalltalk). [Application software](http://en.wikipedia.org/wiki/Application_software) usually runs on an underlying software [operating systems](http://en.wikipedia.org/wiki/Operating_system) such as [Linux](http://en.wikipedia.org/wiki/Linux) or [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows). Software (or [firmware](http://en.wikipedia.org/wiki/Firmware)) is also used in [video games](http://en.wikipedia.org/wiki/Video_game) and for the configurable parts of the [logic](http://en.wikipedia.org/wiki/Logic)systems of [automobiles](http://en.wikipedia.org/wiki/Automobile), [televisions](http://en.wikipedia.org/wiki/Television), and other [consumer electronics](http://en.wikipedia.org/wiki/Consumer_electronics).

Practical [computer systems](http://en.wikipedia.org/wiki/Computer_system) divide [software systems](http://en.wikipedia.org/wiki/Software_system) into three major classes: [system software](http://en.wikipedia.org/wiki/System_software), [programming software](http://en.wikipedia.org/wiki/Programming_software) and [application software](http://en.wikipedia.org/wiki/Application_software), although the distinction is arbitrary, and often blurred.

## Operating system

An **operating system** (**OS**) is a set of software that manages [computer hardware](http://en.wikipedia.org/wiki/Computer_hardware) resources and provides common services for [computer programs](http://en.wikipedia.org/wiki/Computer_program). The operating system is a vital component of the [system software](http://en.wikipedia.org/wiki/System_software) in a computer system. Application programs require an operating system to function.

Time-sharing operating systems schedule tasks for efficient use of the system and may also include accounting for cost allocation of processor time, mass storage, printing, and other resources.

For hardware functions such as input and output and [memory allocation](http://en.wikipedia.org/wiki/Dynamic_memory_allocation), the operating system acts as an intermediary between programs and the computer hardware,[[1]](http://en.wikipedia.org/wiki/Operating_system#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Operating_system#cite_note-1) although the application code is usually executed directly by the hardware and will frequently make a [system call](http://en.wikipedia.org/wiki/System_call) to an OS function or be interrupted by it. Operating systems can be found on almost any device that contains a computer—from [cellular phones](http://en.wikipedia.org/wiki/Cellular_phone) and [video game consoles](http://en.wikipedia.org/wiki/Video_game_console) to [supercomputers](http://en.wikipedia.org/wiki/Supercomputer) and [web servers](http://en.wikipedia.org/wiki/Web_server).

Examples of popular modern operating systems include [Android](http://en.wikipedia.org/wiki/Android_(operating_system)), [BSD](http://en.wikipedia.org/wiki/BSD), [iOS](http://en.wikipedia.org/wiki/IOS), [GNU/Linux](http://en.wikipedia.org/wiki/GNU/Linux), [Mac OS X](http://en.wikipedia.org/wiki/Mac_OS_X), [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows),[[3]](http://en.wikipedia.org/wiki/Operating_system#cite_note-netapplications-2) [Windows Phone](http://en.wikipedia.org/wiki/Windows_Phone), and [IBM z/OS](http://en.wikipedia.org/wiki/IBM_z/OS). All these, except Windows and z/OS, share roots in [UNIX](http://en.wikipedia.org/wiki/UNIX).

## System software

**System software** is [computer software](http://en.wikipedia.org/wiki/Computer_software) designed to operate and control the [computer hardware](http://en.wikipedia.org/wiki/Computer_hardware) and to provide a platform for running [application software](http://en.wikipedia.org/wiki/Application_software).[[1]](http://en.wikipedia.org/wiki/System_software#cite_note-0)[[2]](http://en.wikipedia.org/wiki/System_software#cite_note-1)

[Device drivers](http://en.wikipedia.org/wiki/Device_driver) such as computer [BIOS](http://en.wikipedia.org/wiki/BIOS) and device [firmware](http://en.wikipedia.org/wiki/Firmware) provide basic functionality to operate and control the hardware connected to or built into the computer. The [operating system](http://en.wikipedia.org/wiki/Operating_system) (prominent examples being [z/OS](http://en.wikipedia.org/wiki/Z/OS), [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows), [Mac OS X](http://en.wikipedia.org/wiki/Mac_OS_X) and [Linux](http://en.wikipedia.org/wiki/Linux)), allows the parts of a computer to work together by performing tasks like transferring [data](http://en.wikipedia.org/wiki/Data_(computing)) between [memory](http://en.wikipedia.org/wiki/Random_access_memory) and [disks](http://en.wikipedia.org/wiki/Disk_storage) or rendering output onto a [display device](http://en.wikipedia.org/wiki/Display_device). It also provides a platform to run high-level system software and [application software](http://en.wikipedia.org/wiki/Application_software). [Window systems](http://en.wikipedia.org/wiki/Window_system) are components of a [graphical user interface](http://en.wikipedia.org/wiki/Graphical_user_interface) (GUI), and more specifically of a [desktop environment](http://en.wikipedia.org/wiki/Desktop_environment), which supports the implementation of [window managers](http://en.wikipedia.org/wiki/Window_manager), and provides basic support for graphics hardware, pointing devices such as mice, and keyboards. The mouse cursor is also generally drawn by the [windowing system](http://en.wikipedia.org/wiki/Windowing_system). [Utility software](http://en.wikipedia.org/wiki/Utility_software) helps to analyze, configure, optimize and maintain the computer.

[Servers](http://en.wikipedia.org/wiki/Server_(computing)) are computer programs running to serve the requests of other programs, the "[clients](http://en.wikipedia.org/wiki/Client_(computing))". The server performs some computational task on behalf of clients which may run on either the same computer or on other computers connected through a network.

In some publications, the term *system software* is also used to designate [software development](http://en.wikipedia.org/wiki/Software_development) tools (like a [compiler](http://en.wikipedia.org/wiki/Compiler), [linker](http://en.wikipedia.org/wiki/Linker_(computing)) or [debugger](http://en.wikipedia.org/wiki/Debugger)).[[3]](http://en.wikipedia.org/wiki/System_software#cite_note-2)

In contrast to system software, software that allows users to do things like create text documents, play games, listen to music, or surf the web is called [application software](http://en.wikipedia.org/wiki/Application_software).[[4]](http://en.wikipedia.org/wiki/System_software#cite_note-3)

## Programming software

A **programming tool** or **software development tool** is a [program](http://en.wikipedia.org/wiki/Computer_program) or [application](http://en.wikipedia.org/wiki/Application_software) that [software developers](http://en.wikipedia.org/wiki/Software_developer) use to create, debug, maintain, or otherwise support other programs and applications. The term usually refers to relatively simple programs that can be combined together to accomplish a task, much as one might use multiple hand [tools](http://en.wikipedia.org/wiki/Tool) to fix a physical object. Programming tool or programming software is a sub-category of [system software](http://en.wikipedia.org/wiki/System_software) but sometimes it is stated as a separate category of software along with application and system software.[[1]](http://en.wikipedia.org/wiki/Programming_software#cite_note-0)

## Application software

**Application software**, also known as an **application** or an **app**, is [computer software](http://en.wikipedia.org/wiki/Computer_software) designed to help the user to perform specific tasks. Examples include [enterprise software](http://en.wikipedia.org/wiki/Enterprise_software), [accounting software](http://en.wikipedia.org/wiki/Accounting_software), [office suites](http://en.wikipedia.org/wiki/Office_suite), [graphics software](http://en.wikipedia.org/wiki/Graphics_software) and [media players](http://en.wikipedia.org/wiki/Media_player_(application_software)). Many application programs deal principally with [documents](http://en.wikipedia.org/wiki/Document_file_format). Apps may be [bundled](http://en.wikipedia.org/wiki/Product_bundling) with the computer and its system software, or may be published separately. Some users are satisfied with the bundled apps and need never install one.

Application software is contrasted with [system software](http://en.wikipedia.org/wiki/System_software) and [middleware](http://en.wikipedia.org/wiki/Middleware), which manage and integrate a computer's capabilities, but typically do not directly apply in the performance of tasks that benefit the user. The system software serves the application, which in turn serves the user.

Similar relationships apply in other fields. For example, a shopping mall does not provide the merchandise a shopper is seeking, but provides space and services for retailers that serve the shopper. A bridge may similarly support rail tracks which support trains, allowing the trains to transport passengers.

This category includes:

* + - Business software
    - Computer-aided design
    - Databases
    - Decision-making software
    - Educational software
    - Image editing
    - Industrial automation
    - Mathematical software
    - Medical software
    - Molecular modeling software
    - Quantum chemistry and solid state physics software
    - Simulation software
    - Spreadsheets
    - Telecommunications (i.e., the Internet and everything that flows on it)
    - Video editing software
    - Video games
    - Word processing

## Commercial Software

**Commercial software**, or less commonly, **payware**, is [computer software](http://en.wikipedia.org/wiki/Computer_software) that is produced for [sale](http://en.wikipedia.org/wiki/Selling)[[1]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-0) or that serves [commercial](http://en.wikipedia.org/wiki/Commerce) purposes. Commercial software is most often [proprietary software](http://en.wikipedia.org/wiki/Proprietary_software), but [free software](http://en.wikipedia.org/wiki/Free_software) packages [may also be commercial software.](http://en.wikipedia.org/wiki/Open_source_commercial_software)[[2]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-1)[[3]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-2)[[4]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-3)

All or parts of software packages and services that support commerce are increasingly made available as [free software](http://en.wikipedia.org/wiki/Free_software). This includes products from [Red Hat](http://en.wikipedia.org/wiki/Red_Hat), [Apple Computer](http://en.wikipedia.org/wiki/Apple_Computer), [Sun Microsystems](http://en.wikipedia.org/wiki/Sun_Microsystems), [Google](http://en.wikipedia.org/wiki/Google), and [Microsoft Corporation](http://en.wikipedia.org/wiki/Microsoft_Corporation). Microsoft Corporation uses "commercial software", to describe their [business model](http://en.wikipedia.org/wiki/Business_model).[[5]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-4)

## Free and open-source software

While less common than commercial proprietary software, [free](http://en.wikipedia.org/wiki/Free_software) and [open-source software](http://en.wikipedia.org/wiki/Open-source_software) may also be commercial software. This is a fact that the [Free Software Foundation](http://en.wikipedia.org/wiki/Free_Software_Foundation) emphasizes,[[6]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-5) and is the basis of the [Open Source Initiative](http://en.wikipedia.org/wiki/Open_Source_Initiative).

Under the free software business model, free software vendors may charge a fee for distribution and offer pay support and software customization services. Proprietary software uses a different business model, where a customer of the proprietary software pays a fee for a license to use the software. This license may grant the customer the ability to configure some or no parts of the software themselves. Often some level of support is included in the purchase of proprietary software, but additional support services (especially for enterprise applications) are usually available for an additional fee. Some proprietary software vendors will also customize software for a fee.[[7]](http://en.wikipedia.org/wiki/Commercial_software#cite_note-6)

Free software is generally available at no cost and can result in permanently lower costs compared to [proprietary software](http://en.wikipedia.org/wiki/Proprietary_software). With free software, businesses can fit software to their specific needs by changing the software themselves or by hiring programmers to modify it for them. Free software often has no warranty, and more importantly, generally does not assign legal liability to anyone. However, warranties are permitted between any two parties upon the condition of the software and its usage. Such an agreement is made separately from the free software license.

## Freeware

**Freeware** ([portmanteau](http://en.wikipedia.org/wiki/Portmanteau) of "free" and "software") is [software](http://en.wikipedia.org/wiki/Software) that is available for use at no cost or for an optional fee,[[1]](http://en.wikipedia.org/wiki/Freeware#cite_note-0) but usually with one or more restricted usage rights.[[2]](http://en.wikipedia.org/wiki/Freeware#cite_note-linfo-1)[[3]](http://en.wikipedia.org/wiki/Freeware#cite_note-lawrence-2)[[4]](http://en.wikipedia.org/wiki/Freeware#cite_note-gnu-3) Freeware is in contrast to [commercial software](http://en.wikipedia.org/wiki/Commercial_software), which is typically sold for profit, but might be distributed for a business or commercial purpose in the aim to expand the [marketshare](http://en.wikipedia.org/wiki/Marketshare) of a "premium" product.

According to the[Free Software Foundation](http://en.wikipedia.org/wiki/Free_Software_Foundation), "freeware" is a loosely defined category and it has no clear accepted definition, although FSF says it must be distinguished from [free software](http://en.wikipedia.org/wiki/Free_software) (libre).[[4]](http://en.wikipedia.org/wiki/Freeware#cite_note-gnu-3) Popular examples of[closed-source](http://en.wikipedia.org/wiki/Closed-source) freeware include [Adobe reader](http://en.wikipedia.org/wiki/Adobe_reader) and [Skype](http://en.wikipedia.org/wiki/Skype).

## Shareware

The term **shareware** (also termed **trialware** or **demoware**) is [proprietary software](http://en.wikipedia.org/wiki/Proprietary_software) that is provided to users without payment on a trial basis and is often limited by any combination of [functionality](http://en.wiktionary.org/wiki/function),[availability](http://en.wikipedia.org/wiki/Availability) (it may be functional for a limited time period only), or [convenience](http://en.wikipedia.org/wiki/Convenience) (the software may present a dialog at startup or during usage, reminding the user to purchase it; "nagging dialogs"). Shareware is often offered as a [download](http://en.wikipedia.org/wiki/Download) from an [Internet](http://en.wikipedia.org/wiki/Internet) [website](http://en.wikipedia.org/wiki/Website) or as a [compact disc](http://en.wikipedia.org/wiki/Compact_disc) included with a [periodical](http://en.wikipedia.org/wiki/Periodical) such as a [newspaper](http://en.wikipedia.org/wiki/Newspaper) or [magazine](http://en.wikipedia.org/wiki/Magazine). The rationale behind shareware is to give buyers the opportunity to use the program and judge its usefulness before purchasing a [license](http://en.wikipedia.org/wiki/Software_license) for the full version of the software. Firms with superior software thus have an incentive to offer samples, except if their product is already well known, or if they do not want to be listed in direct competition with other products on shareware repositories.[[1]](http://en.wikipedia.org/wiki/Shareware#cite_note-0)

Shareware is usually offered either with certain [features](http://en.wikipedia.org/wiki/Feature_(software_design)) only available after the license is purchased, or as a full version but for a limited trial period of time. Once the trial period has passed, the program may stop running until a license is purchased. Shareware is often offered without supports or updates which only become available with the purchase of a license. The words "free trial" or "trial version" are indicative of shareware.

The term shareware is used in contrast to [*retail software*](http://en.wikipedia.org/wiki/Retail_software), which refers to [commercial software](http://en.wikipedia.org/wiki/Commercial_software) available only with the purchase of a license which may not be copied for others; [*public domain software*](http://en.wikipedia.org/wiki/Public_domain_software), which refers to software not [copyright](http://en.wikipedia.org/wiki/Copyright) protected; [*open-source software*](http://en.wikipedia.org/wiki/Open-source_software), in which the [source code](http://en.wikipedia.org/wiki/Source_code) is available for anyone to inspect and alter; and [*freeware*](http://en.wikipedia.org/wiki/Freeware), which refers to copyrighted software for which the developers solicit no payment (though they may request donations).

## Retail software

**Retail software** is [computer software](http://en.wikipedia.org/wiki/Computer_software) sold to [end consumers](http://en.wikipedia.org/wiki/End_consumer), usually under restricted licenses. Until the emergence of the [Internet](http://en.wikipedia.org/wiki/Internet), retail software represented, until the 2000s, the vast majority of all end consumer software used and was referred to as **shrinkware** because software almost always ships in a [shrinkwrapped](http://en.wikipedia.org/wiki/Shrinkwrap) box. An important historical event that led to the expansion of the market for retail software was the [Open Letter to Hobbyists](http://en.wikipedia.org/wiki/Open_Letter_to_Hobbyists) by [Bill Gates](http://en.wikipedia.org/wiki/Bill_Gates) in 1976.

The rise of the [Internet](http://en.wikipedia.org/wiki/Internet) and [software licensing](http://en.wikipedia.org/wiki/Software_licensing) schemes has dramatically changed the retail software market. Users are capable of finding [shareware](http://en.wikipedia.org/wiki/Shareware), [freeware](http://en.wikipedia.org/wiki/Freeware) and [free software](http://en.wikipedia.org/wiki/Free_software) products or use Web services as easily as retail.[[1]](http://en.wikipedia.org/wiki/Retail_software#cite_note-0) Producers of proprietary software have shifted to providing much of their software and services via the Internet, including [Google](http://en.wikipedia.org/wiki/Google), [Microsoft](http://en.wikipedia.org/wiki/Microsoft), [Yahoo!](http://en.wikipedia.org/wiki/Yahoo!), and [Apple Inc.](http://en.wikipedia.org/wiki/Apple_Inc.). Software is also becoming available as part of an integrated device, as well.

**OEM Pack** - This is a licensed copy of software given by the software manufacturer to a computer manufacturer to pre-install on a computer being sold to a customer. A backup copy may or may not be provided on a CD to the end user along with the computer.

**Box Pack** - This is a licensed copy of software that an end user buys off the shelf from any authorized retail outlet. They may sometimes be more highly priced than OEM versions as you generally get additional software along with the main software within the pack.

**Paper License** - This is a scheme provided by the software manufacturer to companies or businesses that require large number of copies of particular software to be installed on multiple computers within the organization. Say for example, a company requires installing software on 50 computers in its office. Instead of buying 50 CDs and managing those 50 individually, the company can buy one copy of the software and request the software vendor to issue a paper license authorizing them to use it on 50 computers. The software vendor then charges them accordingly. This method is also much cheaper than buying 50 individual packs.

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## Inventory management

Inventory management is primarily about specifying the shape and percentage of stocked goods. It is required at different locations within a facility or within many locations of a supply network to precede the regular and planned course of production and stock of materials.

The scope of inventory management concerns the fine lines between replenishment lead time, carrying costs of inventory, asset management, inventory forecasting, inventory valuation, inventory visibility, future inventory price forecasting, physical inventory, available physical space for inventory, quality management, replenishment, returns and defective goods, and demand forecasting. Balancing these competing requirements leads to optimal inventory levels, which is an on-going process as the business needs shift and react to the wider environment.

Inventory management involves a retailer seeking to acquire and maintain a proper merchandise assortment while ordering, shipping, handling, and related costs are kept in check. It also involves systems and processes that identify inventory requirements, set targets, provide replenishment techniques, report actual and projected inventory status and handle all functions related to the tracking and management of material. This would include the monitoring of material moved into and out of stockroom locations and the reconciling of the inventory balances. It also may include ABC analysis, lot tracking, cycle counting support, etc. Management of the inventories, with the primary objective of determining/controlling stock levels within the physical distribution system, functions to balance the need for product availability against the need for minimizing stock holding and handling costs.

# III Operating Data

In [computer science](http://en.wikipedia.org/wiki/Computer_science), data is information in a form suitable for use with a [computer](http://en.wikipedia.org/wiki/Computer).[[1]](http://en.wikipedia.org/wiki/Data_(computing)#cite_note-0) Data is often distinguished from [programs](http://en.wikipedia.org/wiki/Computer_program). A program is a sequence of [instructions](http://en.wikipedia.org/wiki/Instruction_(computer_science)) that detail a task for the computer to perform. In this sense, data is thus everything in a [software](http://en.wikipedia.org/wiki/Software) that is not program code.[[2]](http://en.wikipedia.org/wiki/Data_(computing)#cite_note-1)

## Computer files

A **computer file** is a block of arbitrary information, or resource for storing information, which is available to a [computer program](http://en.wikipedia.org/wiki/Computer_program) and is usually based on some kind of durable [storage](http://en.wikipedia.org/wiki/Computer_storage). A file is durable in the sense that it remains available for programs to use after the current program has finished. Computer files can be considered as the modern counterpart of paper [documents](http://en.wikipedia.org/wiki/Document) which traditionally are kept in offices' and libraries' [files](http://en.wikipedia.org/wiki/Filing_cabinet), and this is the source of the term.

**File size**

At any instant in time, a file might have a size, normally expressed as number of [bytes](http://en.wikipedia.org/wiki/Byte), that indicates how much storage is associated with the file. In most modern operating systems the size can be any non-negative whole number of bytes up to a system limit.

**File operations**

At the most basic level there are only two types of file operations; read and write. For example: adding text to a document involves; opening the file (read), inputting the text and saving the file (write)

Files on a computer can be created, moved, modified, grown, shrunk and deleted. In most cases, computer programs that are executed on the computer handle these operations, but the user of a computer can also manipulate files if necessary. For instance, [Microsoft Word](http://en.wikipedia.org/wiki/Microsoft_Word) files are normally created and modified by the Microsoft Word program in response to user commands, but the user can also move, rename, or delete these files directly by using a [file manager program](http://en.wikipedia.org/wiki/File_manager) such as [Windows Explorer](http://en.wikipedia.org/wiki/Windows_Explorer) (on Windows computers).

In [Unix-like](http://en.wikipedia.org/wiki/Unix-like) systems, user-space processes do not normally deal with files at all; the [operating system](http://en.wikipedia.org/wiki/Operating_system) provides a level of [abstraction](http://en.wikipedia.org/wiki/Abstraction_(computer_science)) which means that almost all interaction with files from user-space is through [hard links](http://en.wikipedia.org/wiki/Hard_links). Hard links allow a name to be associated with a file (or they can be anonymous - and therefore temporary); files do not have names in the OS. For example, a user-space program cannot delete a file; it can delete a link to a file (for example, using the [shell](http://en.wikipedia.org/wiki/Shell_(computing)) commands rm or mv or, in the anonymous case, simply by exiting), and if the kernel determines that there are no more existing hard links to the file ([symbolic links](http://en.wikipedia.org/wiki/Symbolic_links) will simply fail to resolve), it may then allow the memory location for the deleted file to be allocated for another file. Because [Unix-like](http://en.wikipedia.org/wiki/Unix-like) systems only delete the pointer to the file the data remains intact on disk, this creates what is known as [free space](http://en.wikipedia.org/wiki/Data_remanence), which is commonly considered a security risk due to the existence of [file recovery software](http://en.wikipedia.org/wiki/File_recovery). Such a risk has given rise to the secure deletion programs such as [srm](http://en.wikipedia.org/wiki/Srm_(Unix)). In fact, it really is only the kernel that deals with files, but it serves to handle all user-space interaction with (virtual) files in a manner that is transparent to the user-space programs.

Although the way programs manipulate files varies according to the operating system and file system involved, the following operations are typical:

* *Creating* a file with a given name
* Setting *attributes* that control operations on the file
* *Opening* a file to use its contents
* *Reading* or *updating* the contents
* *Committing* updated contents to durable storage
* *Closing* the file, thereby losing access until it is opened again

**Identifying files**

Many (but not all) computer systems use [extensions](http://en.wikipedia.org/wiki/Filename_extension) in file names to help identify what they contain, also known as the file type. On Windows computers, extensions consist of a dot (period) at the end of a file name, followed by a few letters to identify the type of file. An extension of .txt identifies a text file; a .doc extension identifies any type of document or documentation, commonly in the [Microsoft Word](http://en.wikipedia.org/wiki/Microsoft_Word) [file format](http://en.wikipedia.org/wiki/File_format); [and so on](http://en.wikipedia.org/wiki/List_of_file_formats). Even when extensions are used in a computer system, the degree to which the computer system recognizes and heeds them can vary; in some systems, they are required, while in other systems, they are completely ignored if they are presented.

Examples of filename extensions are

* .png - Portable Network Graphic
* .exe - Executable File (Microsoft Corporation)
* .dmg - Mountable disk image created in Mac OS X
* .txt - Text file

**Protecting files**

Many modern computer systems provide methods for protecting files against accidental and deliberate damage. Computers that allow for multiple users implement [file permissions](http://en.wikipedia.org/wiki/File_permissions) to control who may or may not modify, delete, or create files and folders. For example, a given user may be granted only permission to read a file or folder, but not to modify or delete it; or a user may be given permission to read and modify files or folders, but not to execute them.

**Backing up files**

When computer files contain information that is extremely important, a [*back-up*](http://en.wikipedia.org/wiki/Back-up) process is used to protect against disasters that might destroy the files. Backing up files simply means making copies of the files in a separate location so that they can be restored if something happens to the computer, or if they are deleted accidentally.

**File Format**

A **file format** is a particular way that information is encoded for storage in a [computer file](http://en.wikipedia.org/wiki/Computer_file), as files need a way to be represented as [bits](http://en.wikipedia.org/wiki/Bits) when stored on a [disc drive](http://en.wikipedia.org/wiki/Disc_drive) or other digital storage medium.

There are different types of file format. Most important ones are:

* [MP3](http://en.wikipedia.org/wiki/MP3)  - an open standard, but subject to patents in some countries [[4]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-3)
* [CDR](http://en.wikipedia.org/wiki/CorelDraw#CDR_file_format) - (non-documented) CorelDraw's native format primarily used for vector graphic drawings
* [DWG](http://en.wikipedia.org/wiki/.dwg) - (non-documented) [AutoCAD](http://en.wikipedia.org/wiki/AutoCAD) drawing
* [PSD](http://en.wikipedia.org/wiki/Adobe_Photoshop#Features) - (non-documented) [Adobe Photoshop](http://en.wikipedia.org/wiki/Adobe_Photoshop)'s native image format
* [RAR](http://en.wikipedia.org/wiki/RAR) - (partially documented) archive and compression file format owned by Alexander L. Roshal[[5]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-4)
* [WMA](http://en.wikipedia.org/wiki/Windows_Media_Audio) - a closed format, owned by [Microsoft](http://en.wikipedia.org/wiki/Microsoft)[[6]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-WMA-5)
* [DOC](http://en.wikipedia.org/wiki/DOC_(computing)) - Microsoft Word Document (formerly closed/undocumented, now [Microsoft Open Specification Promise](http://en.wikipedia.org/wiki/Microsoft_Open_Specification_Promise))
* [XLS](http://en.wikipedia.org/wiki/Microsoft_Excel_file_format) - Microsoft Excel spreadsheet file format (formerly closed/undocumented, now [Microsoft Open Specification Promise](http://en.wikipedia.org/wiki/Microsoft_Open_Specification_Promise))
* [PPT](http://en.wikipedia.org/wiki/Microsoft_PowerPoint#File_formats) - Microsoft PowerPoint Presentation file format (formerly closed/undocumented, now [Microsoft Open Specification Promise](http://en.wikipedia.org/wiki/Microsoft_Open_Specification_Promise))
* PIC – An image file format
* [RTF](http://en.wikipedia.org/wiki/Rich_Text_Format) - a formatted text format (proprietary[[7]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-e-gov-uk-7)[[9]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-8)[[10]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-9), published specification, defined and maintained only by Microsoft)
* [SWF](http://en.wikipedia.org/wiki/SWF) - Adobe Flash format (formerly closed/undocumented, now partially or completely open)
* [XFA](http://en.wikipedia.org/wiki/XFA) - Adobe XML Forms Architecture, used in PDF files (published specification, but not included in the PDF ISO 32000-1 standard; controlled and maintained only by Adobe[[11]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-gnupdf-fdf-10)[[12]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-acroforms-appligent-11))
* [ZIP](http://en.wikipedia.org/wiki/ZIP_(file_format)) - a base version of this data compression and archive file format is in the [public domain](http://en.wikipedia.org/wiki/Public_domain), but newer versions have some patented features[[13]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-12)[[14]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-13)[[15]](http://en.wikipedia.org/wiki/Proprietary_format#cite_note-14)
* [GIF](http://en.wikipedia.org/wiki/Graphics_Interchange_Format) - CompuServe's Graphics Interchange Format (open since 2004)
* [PDF](http://en.wikipedia.org/wiki/Portable_Document_Format) - Adobe's Portable Document Format (open since 2008), but the specification allows some proprietary extensions
* [JPEG 2000](http://en.wikipedia.org/wiki/JPEG_2000) — an image format standardized by ISO/IEC

## Computer folders

In [computing](http://en.wikipedia.org/wiki/Computing), a **folder**, **directory**,[[1]](http://en.wikipedia.org/wiki/Computer_folder#cite_note-0) **catalog**, or **drawer**,[[2]](http://en.wikipedia.org/wiki/Computer_folder#cite_note-1) is a virtual container within a digital [file system](http://en.wikipedia.org/wiki/File_system), in which groups of [computer files](http://en.wikipedia.org/wiki/Computer_file) and possibly other folders can be kept and organized.

Files are kept organized by storing related files in the same folder. A folder contained inside another folder is called a **subfolder**, **subdirectory**, or **child** of that folder, while the containing folder is called the **parent** folder. The top-most parent folder, which does not have a parent folder of its own, is called the **root** folder within the file system. Together, the folders form a [hierarchy](http://en.wikipedia.org/wiki/Hierarchy), or tree structure of one or more levels.

## Word Processing

A word processor is a [computer](http://en.wikipedia.org/wiki/Computer) [application](http://en.wikipedia.org/wiki/Application_software) used for the production (including composition, editing, formatting, and possibly printing) of any sort of printable material.

*Word processing* typically implies the presence of text manipulation functions that extend beyond a basic ability to enter and change text, such as automatic generation of:

* batch mailings using a form letter [template](http://en.wikipedia.org/wiki/Template_(word_processing)) and an address database (also called mail merging);
* indices of keywords and their page numbers;
* tables of contents with section titles and their page numbers;
* tables of figures with caption titles and their page numbers;
* cross-referencing with section or page numbers;
* footnote numbering;
* new [versions](http://en.wikipedia.org/wiki/Revision_control) of a document using variables (e.g. model numbers, product names, etc.)

Other word processing functions include [spell checking](http://en.wikipedia.org/wiki/Spell_checking) (actually checks against wordlists), "grammar checking" (checks for what seem to be simple grammar errors), and a "thesaurus" function (finds words with similar or opposite meanings). Other common features include collaborative editing, comments and annotations, support for images and diagrams and internal cross-referencing.

Almost all word processors enable users to employ *styles*, which are used to automate consistent formatting of text body, titles, subtitles, highlighted text, and so on. Styles greatly simplify managing the formatting of large documents, since changing a style automatically changes all text that the style has been applied to. Even in shorter documents styles can save a lot of time while formatting.

**Document statistics**

Most current word processors can calculate various [statistics](http://en.wikipedia.org/wiki/Statistics) pertaining to a document. These usually include:

* [Character](http://en.wikipedia.org/wiki/Character_(computing)) count, [word count](http://en.wikipedia.org/wiki/Word_count), [sentence](http://en.wikipedia.org/wiki/Sentence_(linguistics)) count, line count, [paragraph](http://en.wikipedia.org/wiki/Paragraph) count, [page](http://en.wikipedia.org/wiki/Page_(paper)) count.
* Word, sentence and paragraph length.
* Editing time.

Errors are common; for instance, a dash surrounded by spaces — like either of these — may be counted as a word.

**Typical usage**

Word processors have a variety of uses and applications within the business world, home, and education.

**Business**

Within the business world, word processors are extremely useful tools. Typical uses include:

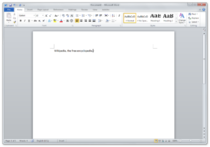
* [legal copies](http://en.wikipedia.org/wiki/US_copyright_law)
* [letters](http://en.wikipedia.org/wiki/Letter_(message)) and [letterhead](http://en.wikipedia.org/wiki/Letterhead)
* [memos](http://en.wikipedia.org/wiki/Memo)
* reference documents

Businesses tend to have their own format and style for any of these. Thus, versatile word processors with layout editing and similar capabilities find widespread use in most businesses.

**Home**

While many homes have word processors on their computers, word processing in the home tends to be educational, planning or business related, dealing with assignments or work being completed at home, or occasionally recreational, e.g. writing short stories. Some use word processors for letter writing, résumé creation, and card creation. However, many of these home publishing processes have been taken over by desktop publishing programs specifically oriented toward home use which are better suited to these types of documents.

## Microsoft Word

Microsoft Office Word is a [proprietary](http://en.wikipedia.org/wiki/Proprietary_software) [word processor](http://en.wikipedia.org/wiki/Word_processor) designed by [Microsoft](http://en.wikipedia.org/wiki/Microsoft). It was first released in 1983 under the name *Multi-Tool Word* for [Xenix](http://en.wikipedia.org/wiki/Xenix) systems.[[1]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-PCHistory-0)[[2]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-1)[[3]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-2) Subsequent versions were later written for several other platforms including [IBM PCs](http://en.wikipedia.org/wiki/IBM_PC) running [DOS](http://en.wikipedia.org/wiki/DOS) (1983), the [Apple Macintosh](http://en.wikipedia.org/wiki/Apple_Macintosh) (1984), the AT&T [Unix PC](http://en.wikipedia.org/wiki/3B1) (1985), [Atari ST](http://en.wikipedia.org/wiki/Atari_ST) (1986), [SCO UNIX](http://en.wikipedia.org/wiki/SCO_OpenServer), [OS/2](http://en.wikipedia.org/wiki/OS/2), and [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows) (1989). It is a component of the [Microsoft Office](http://en.wikipedia.org/wiki/Microsoft_Office) software system; it is also sold as a standalone product and included in [Microsoft Works Suite](http://en.wikipedia.org/wiki/Microsoft_Works). The current versions are Microsoft Office Word 2010 for Windows and Microsoft Office Word 2011 for Mac.

**Features and flaws**

Among its features, Word includes a built-in spell checker, a thesaurus, a dictionary, and utilities for manipulating and editing text. The following are some aspects of its feature set.

**WordArt**

WordArt enables drawing text in a Microsoft Word document such as a title, watermark, or other text, with graphical effects such as skewing, shadowing, rotating, stretching in a variety of shapes and colors and even including three-dimensional effects, starting at version 2007, and prevalent in Office 2010. Users can apply formatting effects such as shadow, bevel, glow, and reflection to their document text as easily as applying bold or underline. Users can also spell-check text that uses visual effects, and add text effects to paragraph styles.

**Macros**

A Macro is a rule of pattern that specifies how a certain input sequence(often a sequence of characters) should be mapped to an output sequence according to defined process. Frequently used or repetitive sequences of keystrokes and mouse movements can be automated. Like other [Microsoft Office](http://en.wikipedia.org/wiki/Microsoft_Office) documents, Word files can include advanced [macros](http://en.wikipedia.org/wiki/Macro_(computer_science)) and even embedded programs. The language was originally [WordBasic](http://en.wikipedia.org/w/index.php?title=WordBasic&action=edit&redlink=1), but changed to [Visual Basic for Applications](http://en.wikipedia.org/wiki/Visual_Basic_for_Applications) as of Word 97.

This extensive functionality can also be used to run and propagate [viruses](http://en.wikipedia.org/wiki/Computer_virus) in documents. The tendency for people to exchange Word documents via email, [USB flash drives](http://en.wikipedia.org/wiki/USB_flash_drive), and [floppy disks](http://en.wikipedia.org/wiki/Floppy_disk) made this an especially attractive vector in 1999. A prominent example was the [Melissa virus](http://en.wikipedia.org/wiki/Melissa_virus), but countless others have existed in the wild.

These macro viruses were the only known cross-platform threats between Windows and Macintosh computers and they were the only infection vectors to affect any [Mac OS X](http://en.wikipedia.org/wiki/Mac_OS_X) system up until the advent of [video codec trojans](http://en.wikipedia.org/wiki/Zlob_trojan) in 2007. Microsoft released patches for Word X and Word 2004 that effectively eliminated the macro problem on the Mac by 2006.

Word's macro security setting, which regulates when macros may execute, can be adjusted by the user, but in the most recent versions of Word, is set to HIGH by default, generally reducing the risk from macro-based viruses, which have become uncommon.

**Layout issues**

Before Word 2010 (Word 14) for Windows, the program was unable to handle [ligatures](http://en.wikipedia.org/wiki/Ligature_(typography)) defined in [TrueType](http://en.wikipedia.org/wiki/TrueType) fonts[[62]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-61) those ligature glyphs with [Unicode](http://en.wikipedia.org/wiki/Unicode) code points may be inserted manually, but are not recognized by Word for what they are, breaking spell checking, while custom ligatures present in the font are not accessible at all. Since Word 2010, the program now has advanced [typesetting](http://en.wikipedia.org/wiki/Typesetting) features which can be enabled:[[63]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-62) [OpenType](http://en.wikipedia.org/wiki/OpenType) ligatures,[[64]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-63) [kerning](http://en.wikipedia.org/wiki/Kerning), and [hyphenation](http://en.wikipedia.org/wiki/Hyphenation_algorithm). Other layout deficiencies of Word include the inability to set crop marks or thin spaces. Various third-party workaround utilities have been developed.[[65]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-64) Similarly, [combining diacritics](http://en.wikipedia.org/wiki/Combining_diacritic) are handled poorly: Word 2003 has "improved support", but many diacritics are still misplaced, even if a precomposed glyph is present in the font.

Additionally, as of Word 2002, Word does automatic [font substitution](http://en.wikipedia.org/wiki/Font_substitution) when it finds a character in a document that does not exist in the font specified. It is impossible to deactivate this, making it very difficult to spot when a glyph used is missing from the font in use. If "Mirror margins" or "Different odd and even" are enabled, Word will not allow the user to freshly begin page numbering an even page after a section break (and vice versa). Instead it inserts a mandatory blank page which cannot be removed.[[66]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-65)

In Word 2004 for Macintosh, support of [complex scripts](http://en.wikipedia.org/wiki/Complex_scripts) was inferior even to Word 97and Word 2004 does not support [Apple Advanced Typography](http://en.wikipedia.org/wiki/Apple_Advanced_Typography) features like ligatures or glyph variants.[[67]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-66)

**Bullets and numbering**

Word has extensive list of bullets and numbering features used for tables, lists, pages, chapters, headers, footnotes, and tables of content. Bullets and numbering can be applied directly or using a button or by applying a style or through use of a template. Some problems with numbering have been found in Word 97-2003. An example is Word's system for restarting numbering.[[68]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-67) The Bullets and Numbering system has been significantly overhauled for Office 2007, which is intended to reduce the severity of these problems.

ະະະCreatingະະະ Users can also create tables in MS Word. Depending on the version, Word can perform simple calculations. Formulae are supported as well. Creating is an act of making a document as an input and it can be printed out as a hardcopy.

**AutoSummarize**

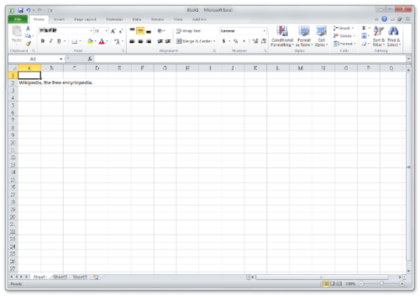
AutoSummarize highlights passages or phrases that it considers valuable. The amount of text to be retained can be specified by the user as a percentage of the current amount of text.

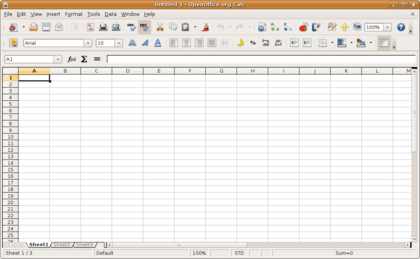
According to Ron Fein of the Word 97 team, AutoSummarize cuts wordy copy to the bone by counting words and ranking sentences. First, AutoSummarize identifies the most common words in the document (barring "a" and "the" and the like) and assigns a "score" to each word—the more frequently a word is used, the higher the score. Then, it "averages" each sentence by adding the scores of its words and dividing the sum by the number of words in the sentence—the higher the average, the higher the rank of the sentence. "It's like the ratio of wheat to chaff," explains Fein.[[69]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-68)

AutoSummarize was removed from Microsoft Word for Mac 2011, although it was present in Word for Mac 2008. AutoSummarize was removed from the Office 2010 release version (14) as well.[[70]](http://en.wikipedia.org/wiki/Microsoft_word#cite_note-69)

## 

## Spreadsheet

[](http://en.wikipedia.org/wiki/File:Excel_2010.png)A **spreadsheet** is a [computer application](http://en.wikipedia.org/wiki/Computer_application) with tools that increase the user's [productivity](http://en.wikipedia.org/wiki/Productivity) in capturing, analyzing, and sharing tabular [data sets](http://en.wikipedia.org/wiki/Data_set). It displays multiple cells usually in a two-dimensional matrix or grid consisting of rows and columns (in other words, a [table](http://en.wikipedia.org/wiki/Table_(information)), hence "tabular"). Each cell contains [alphanumeric](http://en.wikipedia.org/wiki/Alphanumeric) text, numeric values, or formulas. A [formula](http://en.wikipedia.org/wiki/Formula) defines how the content of that cell is to be calculated from the contents of any other cell (or combination of cells) each time any cell is updated. A pseudo third dimension to the matrix is sometimes applied as another layer, or layers/sheets, of two-dimensional data.

[](http://en.wikipedia.org/wiki/File:OpenOffice.org_Calc.png)Spreadsheets developed as computerized simulations of paper accounting [worksheets](http://en.wikipedia.org/wiki/Worksheet). They boost [productivity](http://en.wikipedia.org/wiki/Productivity) because of their ability to re-calculate the entire sheet automatically after a change to a single cell is made (which was a manual process in the days of paper ledgers). Spreadsheets have now replaced paper-based systems throughout the business world, with any exceptions being rare, because of the much greater [productivity](http://en.wikipedia.org/wiki/Productivity) that they make possible, and thus the [competitive](http://en.wikipedia.org/wiki/Competition_(economics)) disadvantage of spreadsheet [illiteracy](http://en.wikipedia.org/wiki/Digital_literacy). Although they were first developed for accounting or bookkeeping tasks, they now are used extensively in any context where tabular lists are built, sorted, and shared.

A modern spreadsheet file consists of multiple **worksheets** (usually called by the shorter name **sheets**) that make up one **workbook**, with each file being one workbook. A cell on one sheet is capable of referencing cells on other, different sheets, whether within the same workbook or even, in some cases, in different workbooks.

Spreadsheets share many principles and traits of [databases](http://en.wikipedia.org/wiki/Database), but spreadsheets and databases are not the same thing. A spreadsheet is essentially just one table, whereas a database is a collection of many tables with [machine-readable](http://en.wikipedia.org/wiki/Machine-readable_medium) semantic relationships between them. Spreadsheets are often [imported](http://en.wikipedia.org/wiki/Import_and_export_of_data) into databases to become tables within them. While it is true that a workbook that contains three sheets is indeed a file containing multiple tables that can interact with each other, it lacks the relational structure of a database.

A spreadsheet app is one of four or five main component apps of an [office productivity suite](http://en.wikipedia.org/wiki/Office_suite) (such as [OpenOffice](http://en.wikipedia.org/wiki/OpenOffice.org) or [Microsoft Office](http://en.wikipedia.org/wiki/Microsoft_Office) [MSO]). Such suites group a spreadsheet app (such as [OpenOffice Calc](http://en.wikipedia.org/wiki/OpenOffice.org_Calc) or [Microsoft Office Excel](http://en.wikipedia.org/wiki/Microsoft_Excel)) with a [word processor](http://en.wikipedia.org/wiki/Word_processor), a [presentation program](http://en.wikipedia.org/wiki/Presentation_program), and a [database management system](http://en.wikipedia.org/wiki/Database_management_system) (and, optionally, various other apps) into a [solution stack](http://en.wikipedia.org/wiki/Solution_stack) that aids the [productivity](http://en.wikipedia.org/wiki/Productivity) of most office work, from administrative to managerial.

[Visicalc](http://en.wikipedia.org/wiki/Visicalc) was the first electronic spreadsheet on a microcomputer, and it helped turn the [Apple II computer](http://en.wikipedia.org/wiki/Apple_II_family) into a success and greatly assisted in their widespread application. [Lotus 1-2-3](http://en.wikipedia.org/wiki/Lotus_1-2-3) was the leading spreadsheet when [DOS](http://en.wikipedia.org/wiki/DOS) was the dominant operating system. [Excel](http://en.wikipedia.org/wiki/Microsoft_Excel) now has the largest market share on the Windows and Macintosh platforms.[[1]](http://en.wikipedia.org/wiki/Spreadsheet#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Spreadsheet#cite_note-1)[[3]](http://en.wikipedia.org/wiki/Spreadsheet#cite_note-2) Since the advent of [web apps](http://en.wikipedia.org/wiki/Web_app), office suites now also exist in web-app form, with [Google Docs](http://en.wikipedia.org/wiki/Google_Docs) and Microsoft [Office Web Apps](http://en.wikipedia.org/wiki/Office_Web_Apps) being the biggest competitors in the segment, and thus Google spreadsheets now share the market with Excel. As [cloud computing](http://en.wikipedia.org/wiki/Cloud_computing) gradually replaces desktop computing, spreadsheet apps continue to be important components for typical end users.

Concepts

The main concepts are those of a grid of [cells](http://en.wikipedia.org/wiki/Table_cell), called sheet, with either raw data, called values, or formulas in the cells. Formulas say how to mechanically compute new values from existing values. Values are generally numbers, but can be also pure text, dates, months, etc. Extensions of these concepts include logical spreadsheets. Various tools for programming sheets, visualizing data, remotely connecting sheets, displaying cells dependencies, etc. are commonly provided.

**Cells**

A **"cell"** can be thought of as a box for holding a [datum](http://en.wikipedia.org/wiki/Datum). A single cell is usually referenced by its column and row (A2 would represent the cell below containing the value 10). Usually rows, representing the [dependant variables](http://en.wikipedia.org/wiki/Dependent_and_independent_variables), are referenced in [decimal notation](http://en.wikipedia.org/wiki/Decimal_notation) starting from 1, while columns representing the [independent variables](http://en.wikipedia.org/wiki/Dependent_and_independent_variables) use 26-adic [bijective numeration](http://en.wikipedia.org/wiki/Bijective_numeration) using the letters A-Z as numerals. Its physical size can usually be tailored for its content by dragging its height or width at box intersections (or for entire columns or rows by dragging the column or rows headers).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **My Spreadsheet** | | | | |
|  | **A** | **B** | **C** | **D** |
| **01** | **value1** | **value2** | **added** | **multiplied** |
| **02** | **10** | **20** | **30** | **200** |

An array of cells is called a "sheet" or "worksheet". It is analogous to an array of [variables](http://en.wikipedia.org/wiki/Variable_(programming)) in a conventional [computer program](http://en.wikipedia.org/wiki/Computer_program) (although certain unchanging values, once entered, could be considered, by the same analogy, [constants](http://en.wikipedia.org/wiki/Constant_(computer_science))). In most implementations, many worksheets may be located within a single spreadsheet. A worksheet is simply a subset of the spreadsheet divided for the sake of clarity. Functionally, the spreadsheet operates as a whole and all cells operate as [global variables](http://en.wikipedia.org/wiki/Global_variable) within the spreadsheet ('read' access only except its own containing cell).

A cell may contain a [value](http://en.wikipedia.org/wiki/Value_(computer_science)) or a [formula](http://en.wikipedia.org/wiki/Formula), or it may simply be left empty. By convention, formulas usually begin with **=** sign.

**Values**

A value can be entered from the computer keyboard by directly typing into the cell itself. Alternatively, a value can be based on a formula (see below), which might perform a calculation, display the current date or time, or retrieve external data such as a stock quote or a database value.

**The Spreadsheet *Value Rule*** Computer scientist [Alan Kay](http://en.wikipedia.org/wiki/Alan_Kay) used the term *value rule* to summarize a spreadsheet's operation: a cell's value relies solely on the formula the user has typed into the cell.[[16]](http://en.wikipedia.org/wiki/Spreadsheet#cite_note-15) The formula may rely on the value of other cells, but those cells are likewise restricted to user-entered data or formulas. There are no 'side effects' to calculating a formula: the only output is to display the calculated result inside its occupying cell. There is no natural mechanism for permanently modifying the contents of a cell unless the user manually modifies the cell's contents. In the context of programming languages, this yields a limited form of first-order [functional programming](http://en.wikipedia.org/wiki/Functional_programming).[[17]](http://en.wikipedia.org/wiki/Spreadsheet#cite_note-16)

**Automatic recalculation**

A standard of spreadsheets since the mid 80s, this optional feature eliminates the need to manually request the spreadsheet program to recalculate values (nowadays typically the default option unless specifically 'switched off' for large spreadsheets, usually to improve performance). Some earlier spreadsheets required a manual request to recalculate, since recalculation of large or complex spreadsheets often reduced data entry speed. Many modern spreadsheets still retain this option.

**Real-time update**

This feature refers to updating a cell's contents periodically when its value is derived from an external source - such as a cell in another "remote" spreadsheet. For shared, web-based spreadsheets, it applies to "immediately" updating cells that have been altered by another user. All dependent cells have to be updated also.

**Locked cell**

Once entered, selected cells (or the entire spreadsheet) can optionally be "locked" to prevent accidental overwriting. Typically this would apply to cells containing formulas but might be applicable to cells containing "constants" such as a kilogram/pounds conversion factor (2.20462262 to eight decimal places). Even though individual cells are marked as locked, the spreadsheet data are not protected until the feature is activated in the file preferences.

**Data format**

A cell or range can optionally be defined to specify how the value is displayed. The default display format is usually set by its initial content if not specifically previously set, so that for example "31/12/2007" or "31 Dec 2007" would default to the cell format of "date". Similarly adding a % sign after a numeric value would tag the cell as a [percentage](http://en.wikipedia.org/wiki/Percentage) cell format. The cell contents are not changed by this format, only the displayed value.

Some cell formats such as "numeric" or "[currency](http://en.wikipedia.org/wiki/Currency)" can also specify the number of [decimal places](http://en.wikipedia.org/wiki/Decimal_place).

This can allow invalid operations (such as doing multiplication on a cell containing a date), resulting in illogical results without an appropriate warning.

**Cell formatting**

Depending on the capability of the spreadsheet application, each cell (like its counterpart the "style" in a [word processor](http://en.wikipedia.org/wiki/Word_processor)) can be separately formatted using the [attributes](http://en.wikipedia.org/wiki/Attribute_(computing)) of either the content (point size, color, bold or italic) or the cell (border thickness, background shading, color). To aid the readability of a spreadsheet, cell formatting may be conditionally applied to data - for example, a negative number may be displayed in red.

A cell's formatting does not typically affect its content and depending on how cells are referenced or copied to other worksheets or applications, the formatting may not be carried with the content.

**Named cells**

In most implementations, a cell, or group of cells in a column or row, can be "named" enabling the user to refer to those cells by a name rather than by a grid reference. Names must be unique within the spreadsheet, but when using multiple sheets in a spreadsheet file, an identically named cell range on each sheet can be used if it is distinguished by adding the sheet name. One reason for this usage is for creating or running macros that repeat a command across many sheets. Another reason is that formulas with named variables are readily checked against the algebra they are intended to implement (they resemble Fortran expressions). Use of named variables and named functions also makes the spreadsheet structure more transparent.

**Cell reference**

In place of a named cell, an alternative approach is to use a cell (or grid) reference. Most cell references indicate another cell in the same spreadsheet, but a cell reference can also refer to a cell in a different sheet within the same spreadsheet, or (depending on the implementation) to a cell in another spreadsheet entirely, or to a value from a remote application.

A typical **cell reference** in "A1" style consists of one or two case-insensitive letters to identify the column (if there are up to 256 columns: A-Z and AA-IV) followed by a row number (e.g. in the range 1-65536). Either part can be relative (it changes when the formula it is in is moved or copied), or absolute (indicated with $ in front of the part concerned of the cell reference). The alternative "R1C1" reference style consists of the letter R, the row number, the letter C, and the column number; relative row or column numbers are indicated by enclosing the number in square brackets. Most current spreadsheets use the A1 style, some providing the R1C1 style as a compatibility option.

When the computer calculates a formula in one cell to update the displayed value of that cell, cell reference(s) in that cell, naming some other cell(s), cause the computer to fetch the value of the named cell(s).

A cell on the same "sheet" is usually addressed as:-

=A1

A cell on a different sheet of the same spreadsheet is usually addressed as:-

=SHEET2!A1 (that is; the first cell in sheet 2 of same spreadsheet).

Some spreadsheet implementations allow a cell references to another spreadsheet (not the current open and active file) on the same computer or a local network. It may also refer to a cell in another open and active spreadsheet on the same computer or network that is defined as shareable. These references contain the complete filename, such as:-

='C:\Documents and Settings\Username\My spreadsheets\[main sheet]Sheet1!A1

In a spreadsheet, references to cells are automatically updated when new rows or columns are inserted or deleted. Care must be taken however when adding a row immediately before a set of column totals to ensure that the totals reflect the additional rows values - which often they do not!

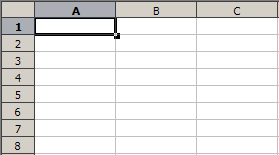
A [circular reference](http://en.wikipedia.org/wiki/Circular_reference) occurs when the formula in one cell has a reference that directly—or indirectly, through a chain of references, each one pointing to another cell that has another reference to the next cell on the chain—points to the one cell. Many common kinds of errors cause such circular references. However, there are some valid techniques that use such circular references. Such techniques, after many recalculations of the spreadsheet, (usually) converge on the correct values for those cells.

**Cell ranges**

Likewise, instead of using a named range of cells, a range reference can be used. Reference to a range of cells is typically of the form (A1:A6) which specifies all the cells in the range A1 through to A6. A formula such as "=SUM(A1:A6)" would add all the cells specified and put the result in the cell containing the formula itself.

**Sheets**

In the earliest spreadsheets, cells were a simple two-dimensional grid. Over time, the model has been expanded to include a third dimension, and in some cases a series of named grids, called sheets. The most advanced examples allow inversion and rotation operations which can slice and project the data set in various ways.

[](http://en.wikipedia.org/wiki/File:Spreadsheet_animation.gif)**Formulas**

Animation of a simple spreadsheet that multiplies values in the left column by 2, then sums the calculated values from the right column to the bottom-most cell. In this example, only the values in the A column are entered (10, 20, 30), and the remainder of cells are formulas. Formulas in the B column multiply values from the A column using relative references, and the formula in B4uses the SUM() function to find the [sum](http://en.wikipedia.org/wiki/Summation) of values in theB1:B3 range.

A formula identifies the [calculation](http://en.wikipedia.org/wiki/Calculation) needed to place the result in the cell it is contained within. A cell containing a formula therefore has two display components; the formula itself and the resulting value. The formula is normally only shown when the cell is selected by "clicking" the mouse over a particular cell; otherwise it contains the result of the calculation.

A formula assigns values to a cell or range of cells, and typically has the format:

|  |
| --- |
| =*expression* |

where the [expression](http://en.wikipedia.org/wiki/Expression_(programming)) consists of:

* [values](http://en.wikipedia.org/wiki/Value_(computer_science)), such as 2, 9.14 or 6.67E-11;
* [references](http://en.wikipedia.org/wiki/Reference_(computer_science)) to other cells, such as, e.g., A1 for a single cell or B1:B3 for a range;
* [arithmetic operators](http://en.wikipedia.org/wiki/Operator_(programming)), such as +, -, \*, /, and others;
* [relational operators](http://en.wikipedia.org/wiki/Relational_operator), such as >=, <, and others; and,
* [functions](http://en.wikipedia.org/wiki/Function_(programming)), such as SUM(), TAN(), and many others.

When a cell contains a formula, it often contains references to other cells. Such a cell reference is a type of variable. Its value is the value of the referenced cell or some derivation of it. If that cell in turn references other cells, the value depends on the values of those. References can be relative (e.g., A1, or B1:B3), absolute (e.g., $A$1, or $B$1:$B$3) or mixed row-wise or column-wise absolute/relative (e.g., $A1 is column-wise absolute and A$1 is row-wise absolute).

The available options for valid formulas depends on the particular spreadsheet implementation but, in general, most arithmetic operations and quite complex nested conditional operations can be performed by most of today's commercial spreadsheets. Modern implementations also offer functions to access custom-build functions, remote data, and applications.

A formula may contain a condition (or nested conditions) - with or without an actual calculation - and is sometimes used purely to identify and **highlight errors**. In the example below, it is assumed the sum of a column of percentages (A1 through A6) is tested for validity and an explicit message put into the adjacent right-hand cell.

=IF(SUM(A1:A6) > 100, "More than 100%", SUM(A1:A6))

A spreadsheet does not, in fact, have to contain any formulas at all, in which case it could be considered merely a collection of data arranged in rows and columns (a [database](http://en.wikipedia.org/wiki/Database)) like a calendar, timetable or simple list. Because of its ease of use, formatting and [hyperlinking](http://en.wikipedia.org/wiki/Hyperlinking) capabilities, many spreadsheets are used solely for this purpose.

**Functions**

Spreadsheets usually contain a number of supplied [functions](http://en.wikipedia.org/wiki/Function_(mathematics)), such as arithmetic operations (for example, summations, averages and so forth), trigonometric functions, statistical functions, and so forth. In addition there is often a provision for *user-defined functions*. In Microsoft Excel these functions are defined using [Visual Basic for Applications](http://en.wikipedia.org/wiki/Visual_Basic_for_Applications) in the supplied Visual Basic editor, and such functions are automatically accessible on the worksheet. In addition, programs can be written that pull information from the worksheet, perform some calculations, and report the results back to the worksheet. In the figure, the name *sq* is user-assigned, and function *sq* is introduced using the [*Visual Basic*](http://en.wikipedia.org/wiki/Visual_basic_for_applications) editor supplied with Excel. *Name Manager* displays the spreadsheet definitions of named variables *x* & *y*.

**Subroutines**

Functions themselves cannot write into the worksheet, but simply return their evaluation. However, in Microsoft Excel, [subroutines](http://en.wikipedia.org/wiki/Subroutine) can write values or text found within the subroutine directly to the spreadsheet. The figure shows the Visual Basic code for a subroutine that reads each member of the named column variable *x*, calculates its square, and writes this value into the corresponding element of named column variable *y*. The *y*-column contains no formula because its values are calculated in the subroutine, not on the spreadsheet, and simply are written in.

**Remote spreadsheet**

Whenever a reference is made to a cell or group of cells that are not located within the current physical spreadsheet file, it is considered as accessing a "remote" spreadsheet. The contents of the referenced cell may be accessed either on first reference with a manual update or more recently in the case of web based spreadsheets, as a near real time value with a specified automatic refresh interval.

**Charts**

Many spreadsheet applications permit [charts](http://en.wikipedia.org/wiki/Chart), [graphs](http://en.wikipedia.org/wiki/Graph_(data_structure)) or [histograms](http://en.wikipedia.org/wiki/Histogram) to be generated from specified groups of cells which are dynamically re-built as cell contents change. The generated graphic component can either be embedded within the current sheet or added as a separate object.

**Multi-dimensional spreadsheets**

These multi-dimensional spreadsheets enabled viewing data and [algorithms](http://en.wikipedia.org/wiki/Algorithm) in various self-documenting ways, including simultaneous multiple synchronized views.

In these programs, a [time series](http://en.wikipedia.org/wiki/Time_series), or any variable, was an object in itself, not a collection of cells which happen to appear in a row or column. Variables could have many attributes, including complete awareness of their connections to all other variables, data references, and text and image notes. Calculations were performed on these objects, as opposed to a range of cells, so adding two time series automatically aligns them in calendar time, or in a user-defined time frame. Data were independent of worksheets—variables, and therefore data, could not be destroyed by deleting a row, column or entire worksheet.

**Logical spreadsheets**

Spreadsheets that have a formula language based upon [logical expressions](http://en.wikipedia.org/wiki/Logic), rather than [arithmetic expressions](http://en.wikipedia.org/wiki/Arithmetic) are known as [logical spreadsheets](http://en.wikipedia.org/wiki/Logical_spreadsheet). Such spreadsheets can be used to reason [deductively](http://en.wikipedia.org/wiki/Deductive_reasoning) about their cell values.

## Presentation program

A **presentation program** (also called a **presentation graphics** program) is a [computer software](http://en.wikipedia.org/wiki/Computer_software) package used to display information, normally in the form of a [slide show](http://en.wikipedia.org/wiki/Slide_show). It typically includes three major functions: an editor that allows text to be inserted and formatted, a method for inserting and manipulating graphic images and a slide-show system to display the content.

## Notable examples

## [Microsoft PowerPoint](http://en.wikipedia.org/wiki/Microsoft_PowerPoint)

## [Corel Presentations](http://en.wikipedia.org/wiki/Corel_Presentations)

## [Google Docs](http://en.wikipedia.org/wiki/Google_Docs)

## [Harvard Graphics](http://en.wikipedia.org/wiki/Harvard_Graphics) (obsolete)

## [IBM Lotus Freelance Graphics](http://en.wikipedia.org/wiki/IBM_Lotus_Freelance_Graphics) (obsolete)

## [Kingsoft Presentation](http://en.wikipedia.org/wiki/Kingsoft_Presentation)

## [Libre Office Impress](http://en.wikipedia.org/wiki/Libre_Office) (open source)

## [OpenOffice.org Impress](http://en.wikipedia.org/wiki/OpenOffice.org_Impress) (open source)

## [SlideRocket](http://en.wikipedia.org/wiki/SlideRocket)

## [Prezi](http://en.wikipedia.org/wiki/Prezi)

## [Apple Keynote](http://en.wikipedia.org/wiki/Apple_Keynote)

## Microsoft PowerPoint

**Microsoft PowerPoint** is the name of a [proprietary](http://en.wikipedia.org/wiki/Proprietary_software) [commercial](http://en.wikipedia.org/wiki/Commercial_software) software [presentation program](http://en.wikipedia.org/wiki/Presentation_program) developed by [Microsoft](http://en.wikipedia.org/wiki/Microsoft). It was developed by[Microsoft](http://en.wikipedia.org/wiki/Microsoft) and officially launched on May 22, 1990. It is part of the [Microsoft Office](http://en.wikipedia.org/wiki/Microsoft_Office) suite, and runs on [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows) and [Apple](http://en.wikipedia.org/wiki/Apple_Inc.)'s [Mac OS X](http://en.wikipedia.org/wiki/Mac_OS_X) operating system. The current versions are Microsoft Office PowerPoint 2010 for Windows and Microsoft Office PowerPoint 2011 for Mac.

**Operation**

PowerPoint presentations consist of a number of individual pages or "slides". The "slide" analogy is a reference to the [slide projector](http://en.wikipedia.org/wiki/Slide_projector). A better analogy would be the "foils" (or transparencies/plastic sheets) that are shown with an overhead projector, although they are in decline now. Slides may contain text, graphics, sound, movies, and other objects, which may be arranged freely.

The presentation can be printed, displayed live on a computer, or navigated through at the command of the presenter. For larger audiences the computer display is often projected using a [video projector](http://en.wikipedia.org/wiki/Video_projector). Slides can also form the basis of [webcasts](http://en.wikipedia.org/wiki/Webcasts).

PowerPoint provides three types of movements:

1. Entrance, emphasis, and exit of elements on a slide itself are controlled by what PowerPoint calls [Custom Animations](http://en.wikipedia.org/wiki/PowerPoint_animation).
2. Transitions, on the other hand, are movements between slides. These can be animated in a variety of ways.
3. Custom animation can be used to create small story boards by animating pictures to enter, exit or move.

## PowerPoint Viewer

Microsoft Office PowerPoint Viewer is a program used to run presentations on computers that do not have PowerPoint installed. Office PowerPoint Viewer is added by default to the same disk or network location that contains one or more presentations packaged by using the Package for CD feature.

PowerPoint Viewer is installed by default with a Microsoft Office 2003 installation for use with the Package for CD feature. The PowerPoint Viewer file is also available for download from the Microsoft Office Online Web site.

Presentations password-protected for opening or modifying can be opened by PowerPoint Viewer. The Package for CD feature allows packaging any password-protected file or setting a new password for all packaged presentations. PowerPoint Viewer prompts for a password if the file is open password-protected.

PowerPoint Viewer supports opening presentations created using PowerPoint 97 and later. In addition, it supports all file content except OLE objects and scripting. PowerPoint Viewer is currently only available for computers running on Microsoft Windows.

## Databases

A **database** is an organized collection of [data](http://en.wikipedia.org/wiki/Data), today typically in digital form. The data are typically organized to model relevant aspects of reality (for example, the availability of rooms in hotels), in a way that supports processes requiring this information (for example, finding a hotel with vacancies).

The term *database* is correctly applied to the data and their supporting [data structures](http://en.wikipedia.org/wiki/Data_structures), and not to the [database management system](http://en.wikipedia.org/wiki/Database_management_system) (DBMS). The database data collection with DBMS is called a [database system](http://en.wikipedia.org/wiki/Database_system).

The following are examples of various database types. Some of them are not main-stream types, but most of them have received special attention (e.g., in research) due to end-user requirements. Some exist as specialized DBMS products, and some have their functionality types incorporated in existing general-purpose DBMSs.:

* **Cloud database**

*Main article:*[*Cloud database*](http://en.wikipedia.org/wiki/Cloud_database)

A *Cloud database* is a database that relies on [cloud technology](http://en.wikipedia.org/wiki/Cloud_computing). Both the database and most of its DBMS reside remotely, "in the cloud," while its applications are both developed by programmers and later maintained and utilized by (application's) end-users through a [Web browser](http://en.wikipedia.org/wiki/Web_browser) and [Open APIs](http://en.wikipedia.org/wiki/Open_API). More and more such database products are emerging, both of new vendors and by virtually all established database vendors.

* **End-user database**

These databases consist of data developed by individual end-users. Examples of these are collections of documents, spreadsheets, presentations, multimedia, and other files. Several products exist to support such databases.

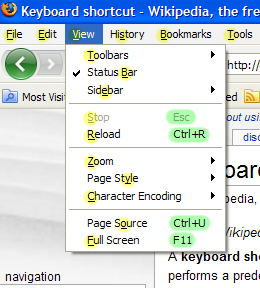
* **Hypermedia databases**

The [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) can be thought of as a database, albeit one spread across millions of independent computing systems. Web browsers "process" this data one page at a time, while [Web crawlers](http://en.wikipedia.org/wiki/Web_crawlers) and other software provide the equivalent of database indexes to support search and other activities.

* **Document-oriented database**

A document-oriented database is a computer program designed for storing, retrieving, and managing document-oriented, or semi structured data, information. Document-oriented databases are one of the main categories of so-called NoSQL databases and the popularity of the term "document-oriented database" (or "document store") has grown with the use of the term NoSQL itself.

Utilized to conveniently store, manage, edit and retrieve documents.



## Keyboard shortcut

In [computing](http://en.wikipedia.org/wiki/Computing), a **keyboard shortcut** is a finite set of one or more [keys](http://en.wikipedia.org/wiki/Computer_keyboard) that invoke a [software](http://en.wikipedia.org/wiki/Software) or [operating system](http://en.wikipedia.org/wiki/Operating_system) operation when triggered by the [user](http://en.wikipedia.org/wiki/User_(computing)). A meaning of term "keyboard shortcut" can vary depending on software manufacturer. For instance, Microsoft differentiates keyboard shortcuts from**hotkeys** (mnemonics) whereby the former consists of a specific key combination used to trigger an action, and the latter represents a designated letter in a menu command or toolbar button that when pressed together with the Alt key, activates such command.

**Description**

Keyboard shortcuts are typically an alternate means for invoking one or more commands that would otherwise be accessible only through a [menu](http://en.wikipedia.org/wiki/Menu_(computing)), a [pointing device](http://en.wikipedia.org/wiki/Pointing_device), different levels of a [user interface](http://en.wikipedia.org/wiki/User_interface), or via a [command console](http://en.wikipedia.org/wiki/Command_line). Keyboard shortcuts generally expedite common operations by reducing input sequences to a few keystrokes, hence the term "shortcut".[[1]](http://en.wikipedia.org/wiki/Keyboard_shortcut#cite_note-shortcut_lingo-0)

Some keyboard shortcuts require the user to press a single key or a sequence of keys one after the other. Other keyboard shortcuts require pressing and holding several keys simultaneously. For simultaneous keyboard shortcuts, one usually first holds down the [modifier key](http://en.wikipedia.org/wiki/Modifier_key)(s), then quickly presses and releases the regular (non-modifier) key, and finally releases the modifier key(s). This distinction is important, as trying to press all the keys simultaneously will frequently either miss some of the modifier keys, or cause unwanted auto-repeat. One exception is shortcuts involving the Esckey, which almost always requires pressing and releasing the Esc key before pressing the next key.

[Mnemonics](http://en.wikipedia.org/wiki/Mnemonics_(keyboard)) are distinguishable from keyboard shortcuts. One difference between them is that the keyboard shortcuts are not localized on multi-language software but the mnemonics are generally localized to reflect the symbols and letters used in the specific locale. In most [GUIs](http://en.wikipedia.org/wiki/GUI), a program's keyboard shortcuts are discoverable by browsing the program's menus - the shortcut is indicated in the menu choice. There are keyboards, commonly called [Specialty Keyboards](http://en.wikipedia.org/wiki/Specialty_Keyboards) that have the shortcuts for a particular application already marked on them. These keyboards can help the users learn the shortcuts and improve their speed of using the particular applications. In certain cases, those keyboards can be created by applying shortcut stickers on a regular keyboard, which usually gives quicker access to software program features not visible otherwise. Such keyboards are often used for editing video, audio, or graphics,[[2]](http://en.wikipedia.org/wiki/Keyboard_shortcut#cite_note-1) as well as in software training courses.

**Customization**

When shortcuts are referred to as **key bindings** it carries the connotation that the shortcuts are customizable to a user's preference and that program functions may be 'bound' to a different set of keystrokes instead of or in addition to the default.This highlights a difference in philosophy regarding shortcuts. Some systems, typically [end-user](http://en.wikipedia.org/wiki/End-user)-oriented systems such as [Windows](http://en.wikipedia.org/wiki/Microsoft_Windows) or [Macintosh](http://en.wikipedia.org/wiki/Macintosh) consider standardized shortcuts essential to the environment's ease of use. These systems usually limit a user's ability to change shortcuts, typically requiring a separate, possibly third-party, utility to perform the task. Other systems, typically [Unix](http://en.wikipedia.org/wiki/Unix) and related, consider shortcuts to be a user's prerogative, and that they should be changeable to suit individual preference. [Hardcore gamers](http://en.wikipedia.org/wiki/Hardcore_gamers) often customize their key bindings in order to increase performance via faster reaction times. In most real-world environments, both philosophies co-exist; a core set of *sacred* shortcuts remain fixed while others, typically involving an otherwise unused modifier key or keys, are under the user's control.

**"Sacred" key bindings**

The original Macintosh interface defined a set of keyboard shortcuts that would remain consistent across application programs. This provides a better [user experience](http://en.wikipedia.org/wiki/User_experience) than the situation then prevalent of applications using wholly unrelated keys for different functions. This could result in [data loss](http://en.wikipedia.org/wiki/Data_loss) under multitasking systems if, for example, one program used ⌘-D to mean "Delete" while another used it to access a "Disk" menu. The standard bindings were:

* ⌘Q : **Q**uit
* ⌘W : Close **W**indow
* ⌘I : **I**talicize text
* ⌘U : **U**nderline text
* ⌘O : **O**pen
* ⌘P : **P**rint
* ⌘A : Select **A**ll
* ⌘S : **S**ave
* ⌘F : **F**ind
* ⌘Z : Undo (resembles the action of striking out a mistake)
* ⌘X : Cut (resembles scissors)
* ⌘C : **C**opy
* ⌘V : Paste (resembles an arrow pointing downward "into" the document, or a brush used for applying paste)
* ⌘B : **B**old text
* ⌘N : **N**ew Document
* ⌘. : User interrupt
* ⌘? : Help (? signifies a question or confusion)

## Access key

In a [web browser](http://en.wikipedia.org/wiki/Web_browser), an **access key** or **accesskey** allows a [computer](http://en.wikipedia.org/wiki/Computer) [user](http://en.wikipedia.org/wiki/User_(computing)) immediately to jump to a specific part of a [web page](http://en.wikipedia.org/wiki/Web_page) via the [keyboard](http://en.wikipedia.org/wiki/Computer_keyboard). They were introduced in 1999 and quickly achieved near-universal browser support.

In the summer of 2002, a Canadian Web Accessibility[[1]](http://en.wikipedia.org/wiki/Access_key#cite_note-0) consultancy did an informal survey to see if implementing accesskeys caused issues for users of [adaptive technology](http://en.wikipedia.org/wiki/Adaptive_technology), especially [screen reading technology](http://en.wikipedia.org/wiki/Screen_reader) used by blind and low vision users. These users require numerous keyboard shortcuts to access web pages, as “pointing and clicking” a mouse is not an option for them. Their research showed that most key stroke combinations did in fact present a conflict for one or more of these technologies, and their final recommendation was to avoid using accesskeys altogether.

**Access in different browsers**

A more complete list, which browser support the HTML Access keys are compared in the [comparison of web browsers](http://en.wikipedia.org/wiki/Comparison_of_web_browsers#Accessibility_features_.28continued.29).

In most web browsers, the user invokes the access key by pressing [Alt](http://en.wikipedia.org/wiki/Alt_key) (on PC) or [Ctrl](http://en.wikipedia.org/wiki/Control_key) (on Mac) simultaneously with the appropriate character on the keyboard.

|  |  |  |  |
| --- | --- | --- | --- |
| [**Web Browser**](http://en.wikipedia.org/wiki/Web_Browser) | [**Modifier**](http://en.wikipedia.org/wiki/Modifier_key) | **Effect** | **Notes** |
| [Amaya](http://en.wikipedia.org/wiki/Amaya_(web_browser)) | Ctrl *or* Alt |  | Adjustable in preferences |
| [Blazer](http://en.wikipedia.org/wiki/Blazer_(web_browser)) |  | Element is activated immediately upon key press. | No modifier is needed for this web browser used on mobile devices. |
| [Camino](http://en.wikipedia.org/wiki/Camino) | Ctrl |  |  |
| [Google Chrome](http://en.wikipedia.org/wiki/Google_Chrome) 3 and higher | Alt on Windows and Linux (Note: ⇧ Shift is required in some circumstances)  Ctrl + ⌥ Opt on Mac |  | Supported in versions of Chrome >2.x |
| [Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox) 2 and higher | Alt+⇧ Shift on Windows and Linux[[3]](http://en.wikipedia.org/wiki/Access_key#cite_note-ui-key-contentAccess-2)[[4]](http://en.wikipedia.org/wiki/Access_key#cite_note-3)  Ctrl on Mac[[3]](http://en.wikipedia.org/wiki/Access_key#cite_note-ui-key-contentAccess-2) |  | Prior to version 2.0 Firefox used just Alt; configurable via [about:config](http://en.wikipedia.org/wiki/About:_URI_scheme)[[3]](http://en.wikipedia.org/wiki/Access_key#cite_note-ui-key-contentAccess-2) |
| [Internet Explorer](http://en.wikipedia.org/wiki/Internet_Explorer) | [Alt](http://en.wikipedia.org/wiki/Alt_key) | Prior to IE8, Alt + Access Key focused on the element, but required ↵ Enter to be pressed in order to activate the element. This is still the case for [hyperlinks](http://en.wikipedia.org/wiki/Hyperlink) in version 9. |  |
| [Konqueror](http://en.wikipedia.org/wiki/Konqueror) | Ctrl | The modifier key must be released before the regular key is pressed. |  |
| [Opera](http://en.wikipedia.org/wiki/Opera_(web_browser)) | ⇧ Shift+Esc | The modifier key must be released before the regular key is pressed. Once the modifier key is released, browser lists the set of access keys on that page with action and user can hit the desired key. | Configurable via [Graphical user interface](http://en.wikipedia.org/wiki/Graphical_user_interface) |
| [Safari](http://en.wikipedia.org/wiki/Safari_(web_browser)) 3 | [Ctrl](http://en.wikipedia.org/wiki/Control_key) for Mac  [Alt](http://en.wikipedia.org/wiki/Alt_key) for Windows |  |  |
| Safari 4 and higher | [Ctrl](http://en.wikipedia.org/wiki/Control_key)+⌥ [Opt](http://en.wikipedia.org/wiki/Option_key) on Mac  [Alt](http://en.wikipedia.org/wiki/Alt_key) on Windows |  |  |

### Multiple access keys

If multiple identical accesskeys are assigned within the same document, IE will tab through them on each keypress (IE will tab backwards if ⇧ Shift is pressed as well). This way, elements can be logically grouped in various accesskey rings for easier navigation. IE 4.0 only supported letters of the English alphabet as accesskeys. Firefox 2.0 will activate the last of a group of elements assigned the same accesskey.

## Table of keyboard shortcuts

In [computing](http://en.wikipedia.org/wiki/Computing), a [keyboard shortcut](http://en.wikipedia.org/wiki/Keyboard_shortcut) is a sequence or combination of keystrokes on a [computer keyboard](http://en.wikipedia.org/wiki/Computer_keyboard) which invokes commands in [software](http://en.wikipedia.org/wiki/Software).

Some keyboard shortcuts require the user to press a single key or a sequence of keys one after the other. Other keyboard shortcuts require pressing and holding several keys simultaneously. Keyboard shortcuts may depend on the keyboard layout (localisation).

**Comparison of keyboard shortcuts**

Keyboard shortcuts are a common aspect of most modern operating systems and associated software applications. Their use is pervasive enough that some users consider them an essential element of their routine interactions with a computer. Whether used as a matter of personal preference or for [adaptive technology](http://en.wikipedia.org/wiki/Adaptive_technology), the pervasiveness of common conventions enables the comparison of keyboard shortcuts across different systems. The following sections detail some of these comparisons in widely used operating systems.

**General shortcuts**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Activate current application's**[**Menu bar**](http://en.wikipedia.org/wiki/Menu_bar) | Alt | With *full keyboard access* active (System Preferences > Keyboard > Full Keyboard Access > All Controls):[[1]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-HT2840-0)[[2]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-HT1343-1)  Ctrl+F2 (or Fn+Ctrl+F2 on some keyboards) |
| [**File menu**](http://en.wikipedia.org/wiki/File_menu) | Alt+F | Ctrl+F2, then F |
| [**Edit menu**](http://en.wikipedia.org/wiki/Edit_menu) | Alt+E | Ctrl+F2, then E |
| **View menu** | Alt+V | Ctrl+F2, then V |
| [**Undo**](http://en.wikipedia.org/wiki/Undo)**the last operation** | Ctrl+Z | ⌘ Cmd+Z |
| [**Redo**](http://en.wikipedia.org/wiki/Redo)**the last operation** | Ctrl+Y | ⇧ Shift+⌘ Cmd+Z |
| **Cut the selected area and store it in the**[**clipboard**](http://en.wikipedia.org/wiki/Clipboard_(software)) | Ctrl+X or ⇧ Shift+Del | ⌘ Cmd+X |
| **Copy the selected area into the**[**clipboard**](http://en.wikipedia.org/wiki/Clipboard_(software)) | Ctrl+C, or Ctrl+[Ins](http://en.wikipedia.org/wiki/Insert_key) | ⌘ Cmd+C |
| **Paste contents of**[**clipboard**](http://en.wikipedia.org/wiki/Clipboard_(software))**at**[**cursor**](http://en.wikipedia.org/wiki/Cursor_(computers)) | Ctrl+V, or ⇧ Shift+Ins | ⌘ Cmd+V |
| **Paste special** | Ctrl+Alt+V |  |
| **Select everything in focused control or window** | Ctrl+A | ⌘ Cmd+A |
| **Toggle among installed keyboard languages** | ⇧ Shift+Alt | ⌘ Cmd+Space  Configure desired keypress in*Keyboard and Mouse Preferences*,*Keyboard Shortcuts*, *Select the next source in Input menu*.[[3]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-HT2490-2) |

**Navigation**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Run new application** | ⊞ Win, enter executable name or ⊞ Win+R, enter executable name | ⌘ Cmd+Space , enter executable name |
| **Open new browser window with same page as current** | Alt+(D then ↵ Enter ) |  |
| **Make new folder** | Ctrl+⇧ Shift+N | ⇧ Shift+⌘ Cmd+N |
| **Applications menu** | ⊞ Win or Ctrl+Esc |  |
| **Lock desktop** | ⊞ Win+L[[4]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-lockd-3) |  |
| **Show desktop** | ⊞ Win+D or ⊞ Win+M (then use ⊞ Win+⇧ Shift+M to bring back all windows) | F11 |
| **Log out user** |  | ⇧ Shift+⌘ Cmd+Q |
| **Switch active user** | ⊞ Win+L[[5]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-userswitchxp-4) |  |
| [**Task manager**](http://en.wikipedia.org/wiki/Task_manager) | Ctrl+⇧ Shift+Esc, [Ctrl](http://en.wikipedia.org/wiki/Control-Alt-Delete)+[Alt](http://en.wikipedia.org/wiki/Control-Alt-Delete)+[Delete](http://en.wikipedia.org/wiki/Control-Alt-Delete)[[6]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-taskmanager-5) | Alt+⌘ Cmd+Esc |
| **Rename object** | F2 | ↵ Enter |
| **Open file or program** | ↵ Enter | ⌘ Cmd+O |
| **Switch to next/previous**[**focused**](http://en.wikipedia.org/wiki/Focus_(computing))**window** | Alt+Tab ⇆ /  ⇧ Shift+Alt+Tab ⇆ | ⌘ Cmd+Tab ⇆ /  ⇧ Shift+⌘ Cmd+Tab ⇆ |
| **Switch focus to the next/previous window (without dialog)** | Alt+Esc /  ⇧ Shift+Alt+Esc |  |
| **Open the Run dialog box** | ⊞ Win+R | ⌘ Cmd+Space |
| **Open the Search dialog box** | ⊞ Win, enter executable name or ⊞ Win+F | ⌘ Cmd+Space /  Alt+F |
| **Change input orientation of "Search programs and files" field in Start Menu** | Ctrl+L (left) Ctrl+R (right) Ctrl+E (center) |  |

**Power management**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Place computer into sleep/standby mode** | Sleep (available on some keyboards, configurable in Power Options dialog) | ⌥ [Opt](http://en.wikipedia.org/wiki/Option_key)+⌘ Cmd+Eject[[2]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-HT1343-1) |
| **Shutdown computer** | press window+R (shutdown -s -t time in seconds) | Ctrl+⌥ [Opt](http://en.wikipedia.org/wiki/Option_key)+⌘ Cmd+Eject  (no confirmation, shutdown is immediate) |
| **Restart computer** | press window+r (shutdown -r -t time in seconds) | Ctrl+⌘ Cmd+Eject[[2]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-HT1343-1)  (no confirmation, restart is immediate) |
| **Place display in sleep mode** |  | Ctrl+⇧ Shift+Eject |
| **Bring up power/sleep dialog box** | Alt+F4 (while on Desktop only) | Ctrl+Eject |

**Screenshots**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Save**[**screenshot**](http://en.wikipedia.org/wiki/Screenshot)**of entire screen as file** |  | ⇧ Shift+⌘ Cmd+3 |
| **Copy screenshot of entire screen to clipboard** | Print Screen or Ctrl+Print Screen | Ctrl+⇧ Shift+⌘ Cmd+3 |
| **Save screenshot of window as file** |  | ⇧ Shift+⌘ Cmd+4 then Space |
| **Copy screenshot of window to clipboard** | Alt+Print Screen | Ctrl+⇧ Shift+⌘ Cmd+4 then Space |
| **Copy screenshot of arbitrary area to clipboard** |  | Ctrl+⇧ Shift+⌘ Cmd+4 |
| **Save screenshot of arbitrary area as file** |  | ⇧ Shift+⌘ Cmd+4 |
| **Screencasting** |  |  |

**Text editing**

Many of these commands may be combined with ⇧ Shift to select a region of text.[[10]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-9)

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Delete char to the right of cursor** | Del | Del or Fn+← Backspace |
| **Delete word to the right of cursor** | Ctrl+Del | ⌥ Opt+Del or ⌥ Opt+ Fn+← Backspace |
| **Delete word to the left of cursor** | Ctrl+← Backspace | ⌥ Opt+← Backspace |
| **Go to start of line** | Home | ⌘ Cmd+← or Ctrl+A |
| **Go to end of line** | End | ⌘ Cmd+→ or Ctrl+E |
| **Go to start of document** | Ctrl + Home | ⌘ Cmd+↑ |
| **Go to end of document** | Ctrl + End | ⌘ Cmd+↓ |
| **Go to previous word** | Ctrl+← | ⌥ [Opt](http://en.wikipedia.org/wiki/Option_key)+← |
| **Go to next word** | Ctrl+→ | ⌥ Opt+→ |
| **Go to previous line** | ↑ | ↑ |
| **Go to next line** | ↓ | ↓ |
| **Go to previous line break (paragraph)** | Ctrl+↑ | ⌥ Opt+↑ |
| **Go to next line break** | Ctrl+↓ | ⌥ Opt+↓ |
| **Go to find** | Ctrl+F | ⌘ Cmd+F  ⌘ Cmd+E (Search with current selection) |
| **Go to next search result** | F3 | ⌘ Cmd+G |
| **Go to previous search result** | ⇧ Shift+F3 | ⇧ Shift+⌘ Cmd+G |
| **Search and replace** | Ctrl+H | ⌘ Cmd+F |
| **Search a**[**regular expression**](http://en.wikipedia.org/wiki/Regular_expression) |  |  |
| **Search and replace a regular expression** |  |  |

**Text formatting**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Make selected text bold/regular** | Ctrl+B | ⌘ Cmd+B |
| **Toggle underlining of selected text** | Ctrl+U | ⌘ Cmd+U |
| **Make selected text italic/regular** | Ctrl+I | ⌘ Cmd+I |
| **Change to upper/lower case** | ⇧ Shift+F3 (Works for Microsoft Word and Powerpoint but not Microsoft Excel)[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] | ⌥ Opt+⌘ Cmd+C |
| **Make selected text superscript** | Ctrl+⇧ Shift++ | Ctrl+⌘ Cmd++ (Pages and Adobe Applications only?) |
| **Make selected text subscript** | Ctrl+= | Ctrl+⌘ Cmd+- (Pages and Adobe Applications only?) |
| **Make selected text larger/smaller** | Ctrl+⇧ Shift+>/Ctrl+⇧ Shift+< |  |

**Browsers / Go menu**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Go to Browser's Address Bar** | Alt+D or Alt+C  according language | ⌘ Cmd+L |
| **Go to the previous location in history** | Alt+← or ← Backspace | ⌘ Cmd+[ or ⌘ Cmd+← |
| **Go to the next location in history** | Alt+→ or ⇧ Shift+← Backspace (web browser only) | ⌘ Cmd+] or ⌘ Cmd+→ |
| **Go up one level in the navigation hierarchy** | Alt+↑(Vista and 7 only) or← Backspace(Windows Explorer) | ⌘ Cmd+↑ |
| **Go to the starting page defined by the user or application** | Alt+Home | ⌘ Cmd+Home |

**Web browsers**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Bookmarks menu** | Ctrl+B | ⌘ Cmd+B ([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)) |
| **URL Shortcuts (Adds www. + .com)** | Ctrl+↵ Enter | ⌘ Cmd+↵ Enter ([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)) or  Control+↵ Enter ([Chrome](http://en.wikipedia.org/wiki/Google_Chrome)) |
| **URL Shortcuts (Adds www. + .org)** | Ctrl+⇧ Shift+↵ Enter | ⇧ Shift+⌘ Cmd+↵ Enter ([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)) |
| **URL Shortcuts (Adds www. + .net)** | ⇧ Shift +↵ Enter | ⇧ Shift +↵ Enter ([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)) |
| **Add bookmark for current page** | Ctrl+D | ⌘ Cmd+D |
| **Add bookmark for current link** |  |  |
| **Manage bookmarks** | Ctrl+B | ⌘ Cmd+⌥ Opt+B ([Chrome](http://en.wikipedia.org/wiki/Google_Chrome)/[Safari](http://en.wikipedia.org/wiki/Safari_(web_browser))) or  ⌘ Cmd+⇧ Shift+B ([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)) |
| **Focus and select Web search bar** | Ctrl+E | ⌘ Cmd+E ([Opera](http://en.wikipedia.org/wiki/Opera_(web_browser))) or  ⌘ Cmd+K ([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)) or ⌥ Opt+⌘ Cmd+F ([Safari](http://en.wikipedia.org/wiki/Safari_(web_browser))) |
| **Focus and select address bar** | Ctrl+L or F6 or Alt+D | ⌘ Cmd+L |
| **Refresh a webpage** | F5 or Ctrl+R | ⌘ Cmd+R |
| **Open a new window** | Ctrl+N | ⌘ Cmd+N ([Chrome](http://en.wikipedia.org/wiki/Google_Chrome)) |
| **Zoom Options (zoom in +, zoom out -, zoom 100%)** | Ctrl++ and Ctrl+- and Ctrl+0 | ⌘ Cmd++ and ⌘ Cmd+- and⌘ Cmd+0 |

**Tab management**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Create a new tab** | Ctrl+T | ⌘ Cmd+T |
| **Close current tab** | Ctrl+W | ⌘ Cmd+W |
| **Close all tabs but the current one** |  |  |
| **Go to next tab** | Ctrl+Tab ⇆ | Control+Tab ⇆ or ⌘ Cmd+⇧ Shift+→([Safari](http://en.wikipedia.org/wiki/Safari_(web_browser))) |
| **Go to previous tab** | Ctrl+⇧ Shift+Tab ⇆ | ⇧ Shift+Control+Tab ⇆ or⌘ Cmd+⇧ Shift+← ([Safari](http://en.wikipedia.org/wiki/Safari_(web_browser))) |
| **Go to tab-*n*** | Ctrl+*n* ([Chrome](http://en.wikipedia.org/wiki/Chrome_(web_browser))[Firefox](http://en.wikipedia.org/wiki/Firefox_(web_browser))) | ⌘ Cmd+*n* ([Chrome](http://en.wikipedia.org/wiki/Chrome_(web_browser))) |
| **Open a previously closed tab** | Ctrl+⇧ Shift+T | ⌘ Cmd+⇧ Shift+T([Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox)/[Opera](http://en.wikipedia.org/wiki/Opera_(web_browser))/[Chrome](http://en.wikipedia.org/wiki/Google_Chrome)) |

**Window management**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Pop up window menu** | Alt+Space |  |
| **Close the focused window** | Alt+F4 or Ctrl+F4 or Ctrl +W or Alt+Space then C[[28]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-AltSpaceLanguage-27) | ⌘ Cmd+W |
| **Restore the focused window to its previous size** | Alt+Space then R[[28]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-AltSpaceLanguage-27) |  |
| **Move the focused window** | Alt+Space then M[[28]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-AltSpaceLanguage-27) thenArrow Keys |  |
| **Resize the focused window** | Alt+Space then S[[28]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-AltSpaceLanguage-27) thenArrow Keys |  |
| **Hide the focused window** |  | ⌘ Cmd+H |
| **Hide all except the focused window** |  | ⌘ Cmd+⌥ Option+H |
| **Minimize the focused window** | Alt+Space then N[[28]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-AltSpaceLanguage-27), or⊞ Win+↓ (Windows 7 and Vista Home Premium) | ⌘ Cmd+M |
| **Maximize the focused window** | Alt+Space then X[[28]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-AltSpaceLanguage-27), or⊞ Win+↑ (Windows 7 only) |  |
| **Maximize horizontally** |  |  |
| **Maximize vertically** | ⊞ Win+⇧ Shift+↑ (Windows 7 only) |  |
| **Minimize all** | ⊞ Win+M or ⊞ Win+D | ⌘ Cmd+Alt+M |
| **Minimize all non focused windows** | ⊞ Win+Home (Windows 7 only) |  |
| **Undo minimize all** | ⇧ Shift+⊞ Win+M |  |
| **Switch fullscreen/normal size** | F11 |  |
| **Show the window in full screen mode, with no border, menubar, toolbar or statusbar** |  | *Depends on application* |
| **Rollup/down window** |  |  |
| **Show all open windows** | ⊞ Win+Tab ⇆ | F9 or  Move mouse pointer to configured *hot corner* or *active screen corner*[[29]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-docs.info.apple.com-28)[[30]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-ReferenceA-29) |
| **Show all windows of current application** |  | F10 or  Move mouse pointer to configured *hot corner* or *active screen corner*[[29]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-docs.info.apple.com-28)[[30]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-ReferenceA-29) |
| **Show all workspaces** |  | F8 or  Move mouse pointer to configured *hot corner* or *active screen corner*[[29]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-docs.info.apple.com-28)[[30]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-ReferenceA-29) |
| **Move window to left/right/up/down workspace** | ⊞ Win+←/→ (Windows 7 only) |  |
| **Move window between multiple monitors** | ⊞ Win+⇧ Shift+←/→(Windows 7 only) |  |
| **Move window to workspace *n*** |  |  |
| **Switch to next/previous workspace list** |  |  |
| **Go to workspace *n*** |  | Ctrl+*n* |
| **Go to left/right/up/down workspace** | [[31]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-moveToWorkspace_Windows-30) | Ctrl+← /  Ctrl+→ / Ctrl+↑ / Ctrl+↓(OS X 10.5 to 10.6), Ctrl+← /Ctrl+→ (OS X 10.7) |
| **Show / hide desktop** | ⊞ Win+D | F11 or  Move mouse pointer to configured *hot corner* or *active screen corner*[[29]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-docs.info.apple.com-28)[[30]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-ReferenceA-29) |
| **Activate window demanding attention** |  |  |
| **Quit application of current window** | Alt+F4 or Ctrl+F4 *varies*[[32]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-xpclose-31) | ⌘ Cmd+Q[[33]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-macoskill-32) |
| **Close dialog** | Esc | Esc |
| **Open/Focus (preview) pinned program on the taskbar** | ⊞ Win+(#) where "#" is the position of the program on the Windows 7 Taskbar (Windows 7 only) |  |
| **Open new program window of pinned program in Quick Launch** | ⊞ Win+(#) where "#" is the position of the program on the Quick Launch toolbar (Windows Vista and 7) |  |
| **Open new program window of the pinned program on the taskbar (if program is already opened)** | ⊞ Win+⇧ Shift+(#) where "#" is the position of the program on the Windows 7 Taskbar (Windows 7 only) |  |
| **Focus the first taskbar entry. Pressing again will cycle through them** | ⊞ Win+T , you can ←→back and forth. Hold ⇧ Shift to cycle backwards (Windows 7 only) |  |
| **Peek at the desktop** | ⊞ Win+Space (Windows 7 only) | F11 or  Move mouse pointer to configured *hot corner* or *active screen corner*[[29]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-docs.info.apple.com-28)[[30]](http://en.wikipedia.org/wiki/Table_of_keyboard_shortcuts#cite_note-ReferenceA-29) |
| **Bring gadgets to the front of the Z-order and cycle between gadgets** | ⊞ Win+G (Windows Vista,7) or⊞ Win+Space (Vista only, no cycling) |  |
| **External display options (mirror, extend desktop, etc.)** | ⊞ Win+P (Windows 7 only) |  |

**User interface navigation (widgets and controls)**

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Moves keyboard focus to next/previous control** | Tab ⇆ / ⇧ Shift+Tab ⇆ | With full keyboard access active (System Preferences > Keyboard > Full Keyboard Access > All Controls)  Tab ⇆ / ⇧ Shift+Tab ⇆ |
| **Pop up tooltip for currently focused control** | ⇧ Shift+F1 |  |
| **Show context-sensitive help for currently focused window or control** | ⇧ Shift+F1 | ⌘ Cmd+? |
| **Give focus to next/previous pane** | Ctrl+F6 / Alt+F6 | ⌘ Cmd+` |
| **Give focus to splitter bar in paned window** |  |  |
| **Give focus to window's menu bar** | F10 or Alt | Ctrl+F2  (or Fn+Ctrl+F2 on some keyboards) |
| **Pop up**[**contextual menu**](http://en.wikipedia.org/wiki/Contextual_menu)**for currently selected objects (aka*context menu*)** | ⇧ Shift+F10 or ≣ Menu | Varies with laptop / extended keyboard type; enable [Mouse keys](http://en.wikipedia.org/wiki/Mouse_keys) in [Universal Access](http://en.wikipedia.org/wiki/Universal_Access), then Function+Ctrl+5 orCtrl+5 (numeric keypad) orFunction+Ctrl+i (laptop) |
| **Toggle selected state of focused checkbox, radio button, or toggle button** | Space | Space |
| **Activate focused button, menu item etc.** | ↵ Enter | Space (also ↵ Enter for menu items) |
| **Select/move to first/last item in selected widget** |  |  |
| **Scroll selected view by one page up/left/down/right** |  | ⇞ / ⇟  (or Fn+↑}+Fn+↓ on some keyboards) |
| **Scroll selected view to top/bottom** |  | ↖ or on MacBook Pro Fn + ⌥ [Opt](http://en.wikipedia.org/wiki/Option_key) +↖  ↘ or on MacBook Pro Fn + ⌥ [Opt](http://en.wikipedia.org/wiki/Option_key) +↘ |
| **Switch focus to the next/previous tab within a window** | Ctrl+Tab ⇆ | Ctrl+Tab ⇆ /  ⌘ Cmd+` |
| **Switch focus to the next/previous panel on the desktop** |  |  |
| **Switch focus to the next/previous panel (without dialog)** |  |  |

**Command line shortcuts**

Below is a list of common keyboard shortcuts that are used in a [command line environment](http://en.wikipedia.org/wiki/Command_line_interface).

|  |  |  |
| --- | --- | --- |
| **Action** | **Microsoft Windows (**[**cmd.exe**](http://en.wikipedia.org/wiki/Cmd.exe)**)** | **Microsoft Windows (**[**Windows PowerShell**](http://en.wikipedia.org/wiki/Windows_PowerShell)**)** |
| **Scroll through History of typed commands** | ↑/↓ | ↑/↓ |
| **Signal**[**end-of-file**](http://en.wikipedia.org/wiki/End-of-file) | Ctrl+Z |  |
| **Abort current command/typing** | Ctrl+C | Ctrl+C |
| **Erase word to the left** |  |  |
| **Erase word to the right** |  |  |
| **Erase line to the left** | Ctrl+Home |  |
| **Erase line to the right** | Ctrl+End | Ctrl+End |
| **Yank/paste previously erased string** |  |  |
| **Move one word to the left (backward)** | Ctrl+← | Ctrl+← |
| **Move one word to the right (forward)** | Ctrl+→ | Ctrl+→ |
| **Move to beginning of line** | Home | Home |
| **Move to end of line** | End | End |
| **Reverse search of history** | F8 | F8 |
| **Stop execution of the current job** |  |  |
| **Insert the next character typed verbatim** |  |  |
| **Autocomplete command/file name** | Tab ⇆ (enabled by default in Windows XP and later) | Tab ⇆ |
| **Paste contents of**[**clipboard**](http://en.wikipedia.org/wiki/Clipboard_(software))**at**[**cursor**](http://en.wikipedia.org/wiki/Cursor_(computers)) |  |  |
| **Scroll window up** | ⇧ Shift+PageUp (may not work in some versions of Windows XP) |  |
| **Scroll window down** | ⇧ Shift+PageDown (may not work in some versions of Windows XP) |  |

**Accessibility**

* In Windows, it is possible to disable these shortcuts using the Accessibility or Ease of Access control panel.
* \*\*\*In GNOME, these shortcuts are possible if Universal Access is enabled.

| **Action** | [**Windows**](http://en.wikipedia.org/wiki/Microsoft_Windows) | [**Mac OS**](http://en.wikipedia.org/wiki/Mac_OS) |
| --- | --- | --- |
| **Utility Manager** | ⊞ Win+U |  |
| **Use keyboard to control cursor** | (Left Alt+Left Shift+Numlock |  |
| **Allow user to press shortcuts one key at a time** | (⇧ Shift 5 times) |  |
| **Hear beep when -lock key pressed** | (Numlock for 5 seconds) |  |
| **Stop/slow repeating characters when key is pressed** | (Right Shift for 8 seconds) |  |
| **Inverse (Reverse Colors) Mode** | Left Alt+Left Shift+PrtScn | ⌘ Cmd+⌥ Opt+Ctrl+8 |

# IV Telecommunications

**Telecommunication** is the [transmission](http://en.wikipedia.org/wiki/Transmission_(telecommunications)) of [information](http://en.wikipedia.org/wiki/Information) over significant distances to communicate.

In earlier times, telecommunications involved the use of visual signals, such as [beacons](http://en.wikipedia.org/wiki/Beacon), [smoke signals](http://en.wikipedia.org/wiki/Smoke_signal), [semaphore telegraphs](http://en.wikipedia.org/wiki/Semaphore_line), [signal flags](http://en.wikipedia.org/wiki/Signal_flag), and optical [heliographs](http://en.wikipedia.org/wiki/Heliograph), or audio messages such as coded [drumbeats](http://en.wikipedia.org/wiki/Drum_(communication)), lung-blown horns, and loud whistles.

In modern times, telecommunications involves the use of electrical devices such as the [telegraph](http://en.wikipedia.org/wiki/Electrical_telegraph), [telephone](http://en.wikipedia.org/wiki/Telephone), and [teleprinter](http://en.wikipedia.org/wiki/Teleprinter), as well as the use of radio and [microwave communications](http://en.wikipedia.org/wiki/Microwave_transmission), as well as [fiber optics](http://en.wikipedia.org/wiki/Optical_fiber) and their associated electronics, plus the use of the [orbiting satellites](http://en.wikipedia.org/wiki/Communications_satellite) and the [Internet](http://en.wikipedia.org/wiki/Internet).

A revolution in [wireless telecommunications](http://en.wikipedia.org/wiki/Wireless_communication) began in the 1900s (decade) with pioneering developments in [wireless radio](http://en.wikipedia.org/wiki/Wireless) [communications](http://en.wikipedia.org/wiki/Radio_communications) by [Nikola Tesla](http://en.wikipedia.org/wiki/Nikola_Tesla) and [Guglielmo Marconi](http://en.wikipedia.org/wiki/Guglielmo_Marconi).

## Telecommunication systems

A number of key concepts reoccur throughout the literature on modern telecommunication systems. Some of these concepts are discussed below.

**Basic elements**

A basic [telecommunication system](http://en.wikipedia.org/wiki/Communication_system) consists of three primary units that are always present in some form:

* A [transmitter](http://en.wikipedia.org/wiki/Transmitter) that takes information and converts it to a [signal](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)).
* A [transmission medium](http://en.wikipedia.org/wiki/Transmission_medium), also called the "physical channel" that carries the signal. An example of this is the ["free space channel"](http://en.wikipedia.org/wiki/Free-space_optical_communication).
* A [receiver](http://en.wikipedia.org/wiki/Receiver_(radio)) that takes the signal from the channel and converts it back into usable information.

For example, in a [radio broadcasting station](http://en.wikipedia.org/wiki/Radio_station) the station's large [power amplifier](http://en.wikipedia.org/wiki/Electronic_amplifier) is the transmitter; and the broadcasting [antenna](http://en.wikipedia.org/wiki/Antenna_(radio)) is the interface between the power amplifier and the "free space channel". The free space channel is the transmission medium; and the receiver's antenna is the interface between the free space channel and the receiver. Next, the [radio receiver](http://en.wikipedia.org/wiki/Radio_receiver) is the destination of the radio signal, and this is where it is converted from electricity to sound for people to listen to.

Sometimes, telecommunication systems are ["duplex"](http://en.wikipedia.org/wiki/Duplex_(telecommunications)) (two-way systems) with a single box of [electronics](http://en.wikipedia.org/wiki/Electronics) working as both a transmitter and a receiver, or a *transceiver*. For example, a [cellular telephone](http://en.wikipedia.org/wiki/Cellular_telephone) is a transceiver.[[26]](http://en.wikipedia.org/wiki/Telecommunication#cite_note-stallings-intro-25) The transmission electronics and the receiver electronics in a transceiver are actually quite independent of each other. This can be readily explained by the fact that radio transmitters contain power amplifiers that operate with electrical powers measured in the [watts](http://en.wikipedia.org/wiki/Watt) or [kilowatts](http://en.wikipedia.org/wiki/Kilowatt), but radio receivers deal with radio powers that are measured in the [microwatts](http://en.wikipedia.org/wiki/Microwatt) or [nanowatts](http://en.wikipedia.org/wiki/Nanowatt). Hence, transceivers have to be carefully designed and built to isolate their high-power circuitry and their low-power circuitry from each other.

Telecommunication over telephone lines is called [point-to-point communication](http://en.wikipedia.org/wiki/Point-to-point_communication_(telecommunications)) because it is between one transmitter and one receiver. Telecommunication through radio broadcasts is called [broadcast communication](http://en.wikipedia.org/wiki/Broadcasting) because it is between one powerful transmitter and numerous low-power but sensitive radio receivers.[[26]](http://en.wikipedia.org/wiki/Telecommunication#cite_note-stallings-intro-25)

Telecommunications in which multiple transmitters and multiple receivers have been designed to cooperate and to share the same physical channel are called [multiplex systems](http://en.wikipedia.org/wiki/Multiplexing).

Mayor components of telecommunication systems are:

* Hardware and communications media
* Switches and routers
* Communication protocols and application software

## Signal

A ***signal*** as referred to in [communication systems](http://en.wikipedia.org/wiki/Communication_systems), [signal processing](http://en.wikipedia.org/wiki/Signal_processing), and [electrical engineering](http://en.wikipedia.org/wiki/Electrical_engineering) "is a function that conveys [information](http://en.wikipedia.org/wiki/Information) about the behavior or attributes of some phenomenon".[[1]](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)#cite_note-Priemer-0) In the physical world, any quantity exhibiting variation in time or variation in space (such as an image) is potentially a signal that might provide information on the status of a physical system, or convey a[message](http://en.wikipedia.org/wiki/Message) between observers, among other possibilities.[[2]](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)#cite_note-Note-1) The *IEEE Transactions on Signal Processing* elaborates upon the term "signal" as follows:[[3]](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)#cite_note-IEEE-2)

"The term 'signal' includes, among others, [audio](http://en.wikipedia.org/wiki/Audio_signal), [video](http://en.wikipedia.org/wiki/Video), speech, [image](http://en.wikipedia.org/wiki/Image), communication, geophysical, sonar, radar, medical and musical signals."

Other examples of signals are the output of a [thermocouple](http://en.wikipedia.org/wiki/Thermocouple), which conveys temperature information, and the output of a [pH meter](http://en.wikipedia.org/wiki/PH_meter) which conveys acidity information.[[1]](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)#cite_note-Priemer-0) Typically, signals often are provided by a [sensor](http://en.wikipedia.org/wiki/Sensor), and often the original form of a signal is converted to another form of energy using a [transducer](http://en.wikipedia.org/wiki/Transducer). For example, a [microphone](http://en.wikipedia.org/wiki/Microphone) converts an acoustic signal to a [voltage](http://en.wikipedia.org/wiki/Voltage) waveform, and a [speaker](http://en.wikipedia.org/wiki/Loudspeaker) does the reverse.[[1]](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)#cite_note-Priemer-0)

The formal study of the information content of signals is the field of [information theory](http://en.wikipedia.org/wiki/Information_theory). The information in a signal usually is accompanied by [noise](http://en.wikipedia.org/wiki/Noise_(electronics)). The term *noise* usually means an undesirable random disturbance, but often is extended to include unwanted signals conflicting with the desired signal (such as [crosstalk](http://en.wikipedia.org/wiki/Crosstalk)). The prevention of noise is covered in part under the heading of [signal integrity](http://en.wikipedia.org/wiki/Signal_integrity). The separation of desired signals from a background is the field of [signal recovery](http://en.wikipedia.org/wiki/Detection_theory),[[4]](http://en.wikipedia.org/wiki/Signal_(electrical_engineering)#cite_note-Wilmshurst-3) one branch of which is [estimation theory](http://en.wikipedia.org/wiki/Estimation_theory), a probabilistic approach to suppressing random disturbances.

Engineering disciplines such as [electrical engineering](http://en.wikipedia.org/wiki/Electrical_engineering) have led the way in the design, study, and implementation of systems involving [transmission](http://en.wikipedia.org/wiki/Information_transmission), [storage](http://en.wikipedia.org/wiki/Information_storage), and [manipulation of information](http://en.wikipedia.org/wiki/Information_processor). In the latter half of the 20th century, [electrical engineering](http://en.wikipedia.org/wiki/Electrical_engineering) itself separated into several disciplines, specializing in the design and analysis of systems that manipulate physical signals; [electronic engineering](http://en.wikipedia.org/wiki/Electronic_engineering) and [computer engineering](http://en.wikipedia.org/wiki/Computer_engineering) as examples; while [design engineering](http://en.wikipedia.org/wiki/Industrial_design) developed to deal with functional design of [man–machine interfaces](http://en.wikipedia.org/wiki/User_interface).

## Infrared

**Infrared** (**IR**) light is [electromagnetic radiation](http://en.wikipedia.org/wiki/Electromagnetic_radiation) with longer [wavelengths](http://en.wikipedia.org/wiki/Wavelength) than those of [visible light](http://en.wikipedia.org/wiki/Light), extending from the nominal [red](http://en.wikipedia.org/wiki/Red) edge of the visible [spectrum](http://en.wikipedia.org/wiki/Spectrum)at 0.74 [micrometres](http://en.wikipedia.org/wiki/Micrometre) (µm) to 300 µm. This range of wavelengths corresponds to a [frequency](http://en.wikipedia.org/wiki/Frequency_spectrum) range of approximately 1 to 400 [THz](http://en.wikipedia.org/wiki/THz),[[1]](http://en.wikipedia.org/wiki/Infrared#cite_note-0) and includes most of the [thermal radiation](http://en.wikipedia.org/wiki/Thermal_radiation) emitted by objects near room temperature. Infrared light is emitted or absorbed by molecules when they change their [rotational-vibrational](http://en.wikipedia.org/wiki/Infrared_spectroscopy) movements.

Infrared light is used in industrial, scientific, and medical applications. Its uses include [thermal efficiency](http://en.wikipedia.org/wiki/Thermal_efficiency) analysis, environmental monitoring, industrial facility inspections, remote temperature sensing, short-ranged [wireless communication](http://en.wikipedia.org/wiki/Wireless_communication), [spectroscopy](http://en.wikipedia.org/wiki/Spectroscopy), and [weather forecasting](http://en.wikipedia.org/wiki/Weather_forecasting).

## Radio-frequency identification

**Radio-frequency identification** (**RFID**) is the use of a wireless non-contact system that uses radio-frequency [electromagnetic fields](http://en.wikipedia.org/wiki/Electromagnetic_field) to transfer data from a tag attached to an object, for the purposes of automatic identification and tracking. Some tags require no battery and are powered by the electromagnetic fields used to read them. Others use a local power source and emit [radio](http://en.wikipedia.org/wiki/Radio) waves ([electromagnetic radiation](http://en.wikipedia.org/wiki/Electromagnetic_radiation) at radio frequencies). The tag contains electronically stored information which can be read from up to several meters (yards) away. Unlike a [bar code](http://en.wikipedia.org/wiki/Bar_code), the tag does not need to be within line of sight of the reader and may be embedded in the tracked object.

RFID tags are used in many industries. An RFID tag attached to an automobile during production can be used to track its progress through the assembly line. Pharmaceuticals can be tracked through warehouses. [Livestock and pets may have tags injected](http://en.wikipedia.org/wiki/Microchip_implant_(animal)), allowing positive identification of the animal. RFID identity cards can give employees access to locked areas of a building, and RF transponders mounted in automobiles can be used to bill motorists for access to toll roads or parking.

Since RFID tags can be attached to clothing, possessions, or even [implanted within people](http://en.wikipedia.org/wiki/Microchip_implant_(human)), the possibility of reading personally-linked information without consent has raised privacy concerns.

## Near field communication

**Near field communication** (**NFC**) is a set of standards for [smartphones](http://en.wikipedia.org/wiki/Smartphone) and similar devices to establish [radio](http://en.wikipedia.org/wiki/Radio) communication with each other by touching them together or bringing them into close proximity, usually no more than a few centimeters. Present and anticipated applications include contactless transactions, data exchange, and simplified setup of more complex communications such as [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi).[[1]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-WhatIsNFC-0) Communication is also possible between an NFC device and an unpowered NFC [chip](http://en.wikipedia.org/wiki/Integrated_circuit), called a "tag".[[2]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-Gadgetronica-1)

NFC standards cover communications protocols and data exchange formats, and are based on existing [radio-frequency identification](http://en.wikipedia.org/wiki/Radio-frequency_identification) (RFID) standards including [ISO/IEC 14443](http://en.wikipedia.org/wiki/ISO/IEC_14443) and [FeliCa](http://en.wikipedia.org/wiki/FeliCa).[[3]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-NFCForumSpecList-2) The standards include ISO/IEC 18092[[4]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-ISO18092-3) and those defined by the NFC Forum, which was founded in 2004 by [Nokia](http://en.wikipedia.org/wiki/Nokia), [Philips](http://en.wikipedia.org/wiki/Philips) and [Sony](http://en.wikipedia.org/wiki/Sony), and now has more than 160 members. The Forum also promotes NFC and certifies device compliance.[[5]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-AboutNFCForum-4)

**Uses**

NFC builds upon [RFID](http://en.wikipedia.org/wiki/Radio-frequency_identification) systems by allowing two-way communication between endpoints, where earlier systems such as [contactless smart cards](http://en.wikipedia.org/wiki/Contactless_smart_card) were one-way only.[[6]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-PopSciNFC-5)Since unpowered NFC "tags" can also be read by NFC devices,[[2]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-Gadgetronica-1) it is also capable of replacing earlier one-way applications.

**Commerce**

NFC devices can be used in [contactless payment](http://en.wikipedia.org/wiki/Contactless_payment) systems, similar to those currently used in [credit cards](http://en.wikipedia.org/wiki/Credit_card) and [electronic ticket](http://en.wikipedia.org/wiki/Electronic_ticket) smartcards, and allow [mobile payment](http://en.wikipedia.org/wiki/Mobile_payment)to replace or supplement these systems. For example, [Google Wallet](http://en.wikipedia.org/wiki/Google_Wallet) allows consumers to store credit card and store loyalty card information in a virtual wallet and then use an NFC-enabled device at terminals that also accept [MasterCard PayPass](http://en.wikipedia.org/wiki/MasterCard#PayPass) transactions[[7]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-GoogleWalletNFC-6). [Germany](http://en.wikipedia.org/wiki/Germany)[[8]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-GermanyNFCTrial-7), [Austria](http://en.wikipedia.org/wiki/Austria)[[9]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-AustriaNFCTrial-8), [Latvia](http://en.wikipedia.org/wiki/Latvia)[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] and [Italy](http://en.wikipedia.org/wiki/Italy)[[10]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-ItalyNFCTrial-9) have trialled NFC ticketing systems for public transport. China is using it all over the country in public bus transport[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] and India is implementing NFC based transactions in box offices for ticketing purposes[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)].

Uses of NFC:

* Matching encrypted security code and transporting access key;
* Due to short transmission range, NFC-based transactions are possibly secure;
* Instant payments and coupon delivery using your handset, as we do with your credit card or debit card;
* Exchange of information such as schedules, maps, business card and coupon delivery in a few hundred milliseconds;
* Pay for items just by waving your phone over the NFC capable devices
* Transferring images, posters for displaying and printing
* Social media e.g Like on Facebook, Follow on Twitter via NFC [smart stickers](http://www.tapitnfc.com/) in retail stores

**Bluetooth and WiFi connections**

NFC offers a low-speed connection with extremely simple setup, and could be used to [bootstrap](http://en.wikipedia.org/wiki/Bootstrap) more capable wireless connections.[[11]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-TechEnabler-10) It could, for example, replace the pairing step of establishing [Bluetooth](http://en.wikipedia.org/wiki/Bluetooth) connections or the configuration of [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi) networks.

**Social networking**

NFC can be used in [social networking](http://en.wikipedia.org/wiki/Social_networking_service) situations, such as sharing contacts, photos, videos or files,[[12]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-GoogleIO2011-11) and entering multiplayer [mobile games](http://en.wikipedia.org/wiki/Mobile_game).[[13]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-12)

**Identity documents**

The NFC Forum promotes the potential for NFC-enabled devices to act as electronic [identity documents](http://en.wikipedia.org/wiki/Identity_document) and [keycards](http://en.wikipedia.org/wiki/Keycard_lock).[[11]](http://en.wikipedia.org/wiki/Near_Field_Communication#cite_note-TechEnabler-10) As NFC has a short range and supports encryption, it may be more suitable than earlier, less private RFID systems.

## Bluetooth

**Bluetooth** is a [proprietary](http://en.wikipedia.org/wiki/Proprietary_protocol) [open](http://en.wikipedia.org/wiki/Open_standard) [wireless](http://en.wikipedia.org/wiki/Wireless) technology standard for exchanging data over short distances (using short-wavelength radio transmissions in the [ISM](http://en.wikipedia.org/wiki/ISM_band) band from 2400–2480 MHz) from fixed and mobile devices, creating [personal area networks](http://en.wikipedia.org/wiki/Personal_area_network) (PANs) with high levels of security. Created by telecoms vendor [Ericsson](http://en.wikipedia.org/wiki/Ericsson) in 1994,[[1]](http://en.wikipedia.org/wiki/Bluetooth#cite_note-0) it was originally conceived as a wireless alternative to [RS-232](http://en.wikipedia.org/wiki/RS-232) data cables. It can connect several devices, overcoming problems of synchronization.

Bluetooth is managed by the [Bluetooth Special Interest Group](http://en.wikipedia.org/wiki/Bluetooth_Special_Interest_Group), which has more than 16,000 member companies in the areas of telecommunication, computing, networking, and consumer electronics.[[2]](http://en.wikipedia.org/wiki/Bluetooth#cite_note-autogenerated1-1) The SIG oversees the development of the specification, manages the qualification program, and protects the trademarks.[[3]](http://en.wikipedia.org/wiki/Bluetooth#cite_note-2) To be marketed as a Bluetooth device, it must be [qualified](http://en.wikipedia.org/wiki/Bluetooth_Special_Interest_Group#Qualification) to standards defined by the SIG. A network of [patents](http://en.wikipedia.org/wiki/Patent) is required to implement the technology and are licensed only for those qualifying devices; thus the protocol, whilst open, may be regarded as proprietary.

## Global Positioning System

The **Global Positioning System** (**GPS**) is a space-based [satellite navigation](http://en.wikipedia.org/wiki/Satellite_navigation) system that provides location and time information in all weather, anywhere on or near the Earth, where there is an unobstructed line of sight to four or more GPS satellites. It is maintained by the [United States](http://en.wikipedia.org/wiki/United_States) government and is freely accessible to anyone with a [GPS receiver](http://en.wikipedia.org/wiki/GPS_receiver).

The GPS program provides critical capabilities to military, civil and commercial users around the world. In addition, GPS is the backbone for modernizing the global air traffic system.

The GPS project was developed in 1973 to overcome the limitations of previous navigation systems,[[1]](http://en.wikipedia.org/wiki/GPS#cite_note-0) integrating ideas from several predecessors, including a number of classified engineering design studies from the 1960s. GPS was created and realized by the [U.S. Department of Defense](http://en.wikipedia.org/wiki/U.S._Department_of_Defense) (DoD) and was originally run with 24 satellites. It became fully operational in 1994.

Advances in technology and new demands on the existing system have now led to efforts to modernize the GPS system and implement the next generation of GPS III satellites and Next Generation Operational Control System (OCX).[[2]](http://en.wikipedia.org/wiki/GPS#cite_note-losangelesmil-1) Announcements from the Vice President and the White House in 1998 initiated these changes. In 2000, U.S. Congress authorized the modernization effort, referred to as GPS III.

**Basic concept of GPS**

A GPS receiver calculates its position by precisely timing the signals sent by GPS [satellites](http://en.wikipedia.org/wiki/Satellites) high above the Earth. Each satellite continually transmits messages that include

* the time the message was transmitted
* satellite position at time of message transmission

The receiver uses the messages it receives to determine the transit time of each message and computes the distance to each satellite. These distances along with the satellites' locations are used with the possible aid of [trilateration](http://en.wikipedia.org/wiki/Trilateration), depending on which algorithm is used, to compute the position of the receiver. This position is then displayed, perhaps with a moving map display or latitude and longitude; elevation information may be included. Many GPS units show derived information such as direction and speed, calculated from position changes.

Three satellites might seem enough to solve for position since space has three dimensions and a position near the Earth's surface can be assumed. However, even a very small clock error multiplied by the very large [speed of light](http://en.wikipedia.org/wiki/Speed_of_light)[[37]](http://en.wikipedia.org/wiki/GPS#cite_note-36) — the speed at which satellite signals propagate — results in a large positional error. Therefore receivers use four or more satellites to solve for both the receiver's location and time. The very accurately computed time is effectively hidden by most GPS applications, which use only the location. A few specialized GPS applications do however use the time; these include [time transfer](http://en.wikipedia.org/wiki/Time_transfer), traffic signal timing, and [synchronization of cell phone base stations](http://en.wikipedia.org/wiki/IS-95#Physical_layer).

Although four satellites are required for normal operation, fewer apply in special cases. If one variable is already known, a receiver can determine its position using only three satellites. For example, a ship or aircraft may have known elevation. Some GPS receivers may use additional clues or assumptions such as reusing the last known [altitude](http://en.wikipedia.org/wiki/Altitude), [dead reckoning](http://en.wikipedia.org/wiki/Dead_reckoning), [inertial navigation](http://en.wikipedia.org/wiki/Inertial_navigation_system), or including information from the vehicle computer, to give a less degraded position when fewer than four satellites are visible.[[38]](http://en.wikipedia.org/wiki/GPS#cite_note-37)[[39]](http://en.wikipedia.org/wiki/GPS#cite_note-NAVGPS-38)[[40]](http://en.wikipedia.org/wiki/GPS#cite_note-39)

## Computer network

A **computer network**, often simply referred to as a network, is a collection of computers and other [hardware](http://en.wikipedia.org/wiki/Networking_hardware) components interconnected by communication channels that allow sharing of resources and information.[[1]](http://en.wikipedia.org/wiki/Computer_network#cite_note-0) Where at least one process in one device is able to send/receive data to/from at least one process residing in a remote device, then the two devices are said to be in a network. Simply, more than one computer interconnected through a communication medium for information interchange is called a computer network.

Networks may be classified according to a wide variety of characteristics, such as the medium used to transport the data, [communications protocol](http://en.wikipedia.org/wiki/Communications_protocol) used, scale,[topology](http://en.wikipedia.org/wiki/Network_topology), and organizational scope.

Communications protocols define the rules and data formats for exchanging information in a computer network, and provide the basis for [network programming](http://en.wikipedia.org/wiki/Computer_network_programming). Well-known communications protocols include [Ethernet](http://en.wikipedia.org/wiki/Ethernet), a hardware and [link layer](http://en.wikipedia.org/wiki/Link_layer) standard that is ubiquitous in [local area networks](http://en.wikipedia.org/wiki/Local_area_network), and the [Internet protocol suite](http://en.wikipedia.org/wiki/Internet_protocol_suite), which defines a set of protocols for internetworking, i.e. for data communication between multiple networks, as well as host-to-host data transfer, and application-specific data transmission formats.

Computer networking is sometimes considered a sub-discipline of [electrical engineering](http://en.wikipedia.org/wiki/Electrical_engineering), [telecommunications](http://en.wikipedia.org/wiki/Telecommunications), [computer science](http://en.wikipedia.org/wiki/Computer_science), [information technology](http://en.wikipedia.org/wiki/Information_technology) or [computer engineering](http://en.wikipedia.org/wiki/Computer_engineering), since it relies upon the theoretical and practical application of these disciplines.

Properties

Computer networks:

**Facilitate communications**

Using a network, people can communicate efficiently and easily via email, instant messaging, chat rooms, telephone, video telephone calls, and video conferencing.

**Permit sharing of files, data, and other types of information**

In a network environment, authorized users may access data and information stored on other computers on the network. The capability of providing access to data and information on shared storage devices is an important feature of many networks.

**Share network and computing resources**

In a networked environment, each computer on a network may access and use resources provided by devices on the network, such as printing a document on a shared network printer. [Distributed computing](http://en.wikipedia.org/wiki/Distributed_computing) uses computing resources across a network to accomplish tasks.

**May be insecure**

A computer network may be used by [computer hackers](http://en.wikipedia.org/wiki/Hacker_(computer_security)) to deploy [computer viruses](http://en.wikipedia.org/wiki/Computer_virus) or [computer worms](http://en.wikipedia.org/wiki/Computer_worm) on devices connected to the network, or to prevent these devices from normally accessing the network ([denial of service](http://en.wikipedia.org/wiki/Denial-of-service_attack)).

**May interfere with other technologies**

[Power line communication](http://en.wikipedia.org/wiki/Power_line_communication) strongly disturbs certain forms of radio communication, e.g., amateur radio.[[5]](http://en.wikipedia.org/wiki/Computer_network#cite_note-4) It may also interfere with [last mile](http://en.wikipedia.org/wiki/Last_mile) access technologies such as [ADSL](http://en.wikipedia.org/wiki/ADSL) and [VDSL](http://en.wikipedia.org/wiki/VDSL).[[6]](http://en.wikipedia.org/wiki/Computer_network#cite_note-5)

**May be difficult to set up**

A complex computer network may be difficult to set up. It may also be very costly to set up an effective computer network in a large organization or company.

## Communication media

Computer networks can be classified according to the hardware and associated software technology that is used to interconnect the individual devices in the network, such as [electrical cable](http://en.wikipedia.org/wiki/Cable)([HomePNA](http://en.wikipedia.org/wiki/HomePNA), [power line communication](http://en.wikipedia.org/wiki/Power_line_communication), [G.hn](http://en.wikipedia.org/wiki/G.hn)), [optical fiber](http://en.wikipedia.org/wiki/Optical_fiber), and [radio waves](http://en.wikipedia.org/wiki/Radio_waves) ([wireless LAN](http://en.wikipedia.org/wiki/Wireless_LAN)). In the [OSI model](http://en.wikipedia.org/wiki/OSI_model), these are located at levels 1 and 2.

A well-known *family* of communication media is collectively known as [Ethernet](http://en.wikipedia.org/wiki/Ethernet). It is defined by [IEEE 802](http://en.wikipedia.org/wiki/IEEE_802) and utilizes various standards and media that enable communication between devices. Wireless LAN technology is designed to connect devices without wiring. These devices use [radio waves](http://en.wikipedia.org/wiki/Radio_waves) or [infrared](http://en.wikipedia.org/wiki/IrDA) signals as a transmission medium.

**Wired technologies**

The order of the following wired technologies is, roughly, from slowest to fastest transmission speed.

* [*Twisted pair*](http://en.wikipedia.org/wiki/Twisted_pair)*wire* is the most widely used medium for telecommunication. Twisted-pair cabling consist of copper wires that are twisted into pairs. Ordinary telephone wires consist of two insulated copper wires twisted into pairs. Computer networking cabling (wired [Ethernet](http://en.wikipedia.org/wiki/Ethernet) as defined by [IEEE 802.3](http://en.wikipedia.org/wiki/IEEE_802.3)) consists of 4 pairs of copper cabling that can be utilized for both voice and data transmission. The use of two wires twisted together helps to reduce [crosstalk](http://en.wikipedia.org/wiki/Crosstalk_(electronics)) and [electromagnetic induction](http://en.wikipedia.org/wiki/Electromagnetic_induction). The transmission speed ranges from 2 million bits per second to 10 billion bits per second. Twisted pair cabling comes in two forms: unshielded twisted pair (UTP) and shielded twisted-pair (STP). Each form comes in several category ratings, designed for use in various scenarios.
* [*Coaxial cable*](http://en.wikipedia.org/wiki/Coaxial_cable) is widely used for cable television systems, office buildings, and other work-sites for local area networks. The cables consist of copper or aluminum wire surrounded by an insulating layer (typically a flexible material with a high dielectric constant), which itself is surrounded by a conductive layer. The insulation helps minimize interference and distortion. Transmission speed ranges from 200 million bits per second to more than 500 million bits per second.
* [ITU-T](http://en.wikipedia.org/wiki/ITU-T) [G.hn](http://en.wikipedia.org/wiki/G.hn) technology uses existing [home wiring](http://en.wikipedia.org/wiki/Home_wiring) ([coaxial cable](http://en.wikipedia.org/wiki/Ethernet_over_coax), phone lines and [power lines](http://en.wikipedia.org/wiki/Power_line_communication)) to create a high-speed (up to 1 Gigabit/s) local area network.
* An [optical fiber](http://en.wikipedia.org/wiki/Optical_fiber) is a glass fiber. It uses pulses of light to transmit data. Some advantages of optical fibers over metal wires are less transmission loss, immunity from electromagnetic radiation, and very fast transmission speed, up to trillions of bits per second. One can use different colors of lights to increase the number of messages being sent over a fiber optic cable.

**Wireless technologies**

* *Terrestrial*[*microwave*](http://en.wikipedia.org/wiki/Microwave) – Terrestrial microwave communication uses Earth-based transmitters and receivers resembling satellite dishes. Terrestrial microwaves are in the low-gigahertz range, which limits all communications to line-of-sight. Relay stations are spaced approximately 48 km (30 mi) apart.
* *Communications*[*satellites*](http://en.wikipedia.org/wiki/Satellite) – The satellites communicate via microwave radio waves, which are not deflected by the Earth's atmosphere. The satellites are stationed in space, typically in geosynchronous orbit 35,400 km (22,000 mi) above the equator. These Earth-orbiting systems are capable of receiving and relaying voice, data, and TV signals.
* *Cellular and PCS systems* use several radio communications technologies. The systems divide the region covered into multiple geographic areas. Each area has a low-power transmitter or radio relay antenna device to relay calls from one area to the next area.
* *Radio and spread spectrum technologies* – Wireless local area network use a high-frequency radio technology similar to digital cellular and a low-frequency radio technology. Wireless LANs use spread spectrum technology to enable communication between multiple devices in a limited area. [IEEE 802.11](http://en.wikipedia.org/wiki/IEEE_802.11) defines a common flavor of open-standards wireless radio-wave technology.
* [Infrared communication](http://en.wikipedia.org/wiki/Infrared_communication) can transmit signals for small distances, typically no more than 10 meters. In most cases, [line-of-sight propagation](http://en.wikipedia.org/wiki/Line-of-sight_propagation) is used, which limits the physical positioning of communicating devices.
* A [global area network](http://en.wikipedia.org/wiki/Global_area_network) (GAN) is a network used for supporting mobile across an arbitrary number of wireless LANs, satellite coverage areas, etc. The key challenge in mobile communications is handing off user communications from one local coverage area to the next. In IEEE Project 802, this involves a succession of terrestrial [wireless LANs](http://en.wikipedia.org/wiki/Wireless_LAN).[[7]](http://en.wikipedia.org/wiki/Computer_network#cite_note-6)

**Exotic technologies**

There have been various attempts at transporting data over more or less exotic media:

* [IP over Avian Carriers](http://en.wikipedia.org/wiki/IP_over_Avian_Carriers) was a humorous April fool's [Request for Comments](http://en.wikipedia.org/wiki/Request_for_Comments), issued as [**RFC 1149**](http://tools.ietf.org/html/rfc1149). It was implemented in real life in 2001.[[8]](http://en.wikipedia.org/wiki/Computer_network#cite_note-7)
* Extending the Internet to interplanetary dimensions via radio waves.[[9]](http://en.wikipedia.org/wiki/Computer_network#cite_note-8)

Both cases have a large [round-trip delay time](http://en.wikipedia.org/wiki/Round-trip_delay_time), which prevents useful communication.

## Communications protocols and network programming

A communications protocol is a set of rules for exchanging information over a network. It is typically a [protocol stack](http://en.wikipedia.org/wiki/Protocol_stack) (also see the [OSI model](http://en.wikipedia.org/wiki/OSI_model)), which is a "stack" of protocols, in which each protocol uses the protocol below it. An important example of a protocol stack is [HTTP](http://en.wikipedia.org/wiki/HTTP) running over [TCP](http://en.wikipedia.org/wiki/Transmission_control_protocol) over [IP](http://en.wikipedia.org/wiki/Internet_protocol) over [IEEE 802.11](http://en.wikipedia.org/wiki/IEEE_802.11) (TCP and IP are members of the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite), and IEEE 802.11 is a member of the [Ethernet](http://en.wikipedia.org/wiki/Ethernet) protocol suite). This stack is used between the[wireless router](http://en.wikipedia.org/wiki/Wireless_router) and the home user's personal computer when the user is surfing the web.

Communication protocols have various properties, such as whether they are [connection-oriented](http://en.wikipedia.org/wiki/Connection-oriented_communication) or [connectionless](http://en.wikipedia.org/wiki/Connectionless_communication), whether they use [circuit mode](http://en.wikipedia.org/wiki/Circuit_mode) or [packet switching](http://en.wikipedia.org/wiki/Packet_switching), or whether they use hierarchical or flat addressing.

There are many communication protocols, a few of which are described below.

**Ethernet**

Ethernet is a family of connectionless protocols used in LANs, described by a set of standards together called [IEEE 802](http://en.wikipedia.org/wiki/IEEE_802) published by the [Institute of Electrical and Electronics Engineers](http://en.wikipedia.org/wiki/Institute_of_Electrical_and_Electronics_Engineers). It has a flat addressing scheme and is mostly situated at levels 1 and 2 of the [OSI model](http://en.wikipedia.org/wiki/OSI_model). For home users today, the most well-known member of this protocol family is [IEEE 802.11](http://en.wikipedia.org/wiki/IEEE_802.11), otherwise known as [Wireless LAN](http://en.wikipedia.org/wiki/Wireless_LAN) (WLAN). However, the complete protocol suite deals with a multitude of networking aspects not only for home use, but especially when the technology is deployed to support a diverse range of business needs. [MAC](http://en.wikipedia.org/wiki/Media_access_control)[bridging](http://en.wikipedia.org/wiki/Bridging_(networking)) ([IEEE 802.1D](http://en.wikipedia.org/wiki/IEEE_802.1D)) deals with the routing of Ethernet packets using a [Spanning Tree Protocol](http://en.wikipedia.org/wiki/Spanning_Tree_Protocol), [IEEE 802.1Q](http://en.wikipedia.org/wiki/IEEE_802.1Q) describes [VLANs](http://en.wikipedia.org/wiki/Virtual_LAN), and [IEEE 802.1X](http://en.wikipedia.org/wiki/IEEE_802.1X) defines a port-based [Network Access Control](http://en.wikipedia.org/wiki/Network_Access_Control) protocol, which forms the basis for the authentication mechanisms used in VLANs, but it is also found in WLANs – it is what the home user sees when the user has to enter a "wireless access key".

**Internet Protocol Suite**

The [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite), often also called TCP/IP, is the foundation of all modern internetworking. It offers connection-less as well as connection-oriented services over an inherently unreliable network traversed by datagram transmission at the [Internet protocol](http://en.wikipedia.org/wiki/Internet_protocol) (IP) level. At its core, the protocol suite defines the addressing, identification, and routing specification in form of the traditional[Internet Protocol Version 4](http://en.wikipedia.org/wiki/IPv4) (IPv4) and IPv6, the next generation of the protocol with a much enlarged addressing capability.

**SONET/SDH**

Synchronous Optical Networking (SONET) and Synchronous Digital Hierarchy (SDH) are standardized [multiplexing](http://en.wikipedia.org/wiki/Multiplexing) protocols that transfer multiple digital bit streams over optical fiber using lasers. They were originally designed to transport circuit mode communications from a variety of different sources, primarily to support real-time, uncompressed, [circuit-switched](http://en.wikipedia.org/wiki/Circuit_switching) voice encoded in [PCM](http://en.wikipedia.org/wiki/Pulse_code_modulation) format. However, due to its protocol neutrality and transport-oriented features, SONET/SDH also was the obvious choice for transporting [Asynchronous Transfer Mode](http://en.wikipedia.org/wiki/Asynchronous_Transfer_Mode) (ATM) frames.

**Asynchronous Transfer Mode**

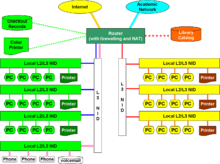
Asynchronous Transfer Mode (ATM) is a switching technique for telecommunication networks. It uses asynchronous [time-division multiplexing](http://en.wikipedia.org/wiki/Time-division_multiplexing) and encodes data into small, fixed-sized [cells](http://en.wikipedia.org/wiki/Cell_relay). This differs from other protocols such as the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite) or [Ethernet](http://en.wikipedia.org/wiki/Ethernet) that use variable sized packets or [frames](http://en.wikipedia.org/wiki/Frame_Relay). ATM has similarity with both [circuit](http://en.wikipedia.org/wiki/Circuit_switching) and [packet](http://en.wikipedia.org/wiki/Packet_switching) switched networking. This makes it a good choice for a network that must handle both traditional high-throughput data traffic, and real-time, [low-latency](http://en.wikipedia.org/wiki/Latency_(engineering)) content such as voice and video. ATM uses a [connection-oriented](http://en.wikipedia.org/wiki/Connection-oriented) model in which a [virtual circuit](http://en.wikipedia.org/wiki/Virtual_circuit) must be established between two endpoints before the actual data exchange begins.

While the role of ATM is diminishing in favor of [next-generation networks](http://en.wikipedia.org/wiki/Next_generation_network), it still plays a role in the [last mile](http://en.wikipedia.org/wiki/Last_mile), which is the connection between an [Internet service provider](http://en.wikipedia.org/wiki/Internet_service_provider) and the home user. For an interesting write-up of the technologies involved, including the deep stacking of communications protocols used, see.[[10]](http://en.wikipedia.org/wiki/Computer_network#cite_note-9)

**Network programming**

[Computer network programming](http://en.wikipedia.org/wiki/Computer_network_programming) involves writing computer programs that communicate with each other across a computer network. Different programs must be written for the [client](http://en.wikipedia.org/wiki/Client_(computing)) process, which initiates the communication, and for the [server](http://en.wikipedia.org/wiki/Server_(computing)) process, which waits for the communication to be initiated. Both endpoints of the communication flow are implemented as [network sockets](http://en.wikipedia.org/wiki/Network_sockets); hence network programming is basically socket programming.

**Scale**

[](http://en.wikipedia.org/wiki/File:NETWORK-Library-LAN.png)Networks are often classified by their physical or organizational extent or their purpose. Usage, trust level, and access rights differ between these types of networks.

**Personal area network**

A [personal area network](http://en.wikipedia.org/wiki/Personal_area_network) (PAN) is a computer network used for communication among computer and different information technological devices close to one person. Some examples of devices that are used in a PAN are personal computers, printers, fax machines, telephones, PDAs, scanners, and even video game consoles. A PAN may include wired and wireless devices. The reach of a PAN typically extends to 10 meters.[[11]](http://en.wikipedia.org/wiki/Computer_network#cite_note-10) A wired PAN is usually constructed with USB and Firewire connections while technologies such as Bluetooth and infrared communication typically form a wireless PAN.

**Local area network**

A [local area network](http://en.wikipedia.org/wiki/Local_area_network) (LAN) is a network that connects computers and devices in a limited geographical area such as home, school, computer laboratory, office building, or closely positioned group of buildings. Each computer or device on the network is a node. Current wired LANs are most likely to be based on [Ethernet](http://en.wikipedia.org/wiki/Ethernet) technology, although new standards like [ITU-T](http://en.wikipedia.org/wiki/ITU-T) [G.hn](http://en.wikipedia.org/wiki/G.hn) also provide a way to create a wired LAN using existing home wires (coaxial cables, phone lines and power lines).[[12]](http://en.wikipedia.org/wiki/Computer_network#cite_note-11)

A sample LAN is depicted in the accompanying diagram. All interconnected devices must understand the network layer (layer 3), because they are handling multiple subnets (the different colors). Those inside the library, which have only 10/100 Mbit/s Ethernet connections to the user device and a Gigabit Ethernet connection to the central router, could be called "layer 3 switches" because they only have Ethernet interfaces and must understand [IP](http://en.wikipedia.org/wiki/Internet_Protocol). It would be more correct to call them access routers, where the router at the top is a distribution router that connects to the Internet and academic networks' customer access routers.

The defining characteristics of LANs, in contrast to WANs (Wide Area Networks), include their higher data transfer rates, smaller geographic range, and no need for leased telecommunication lines. Current Ethernet or other [IEEE 802.3](http://en.wikipedia.org/wiki/IEEE_802.3) LAN technologies operate at data transfer rates up to 10 Gbit/s. [IEEE](http://en.wikipedia.org/wiki/IEEE) has projects investigating the standardization of 40 and 100 Gbit/s.[[13]](http://en.wikipedia.org/wiki/Computer_network#cite_note-12) LANs can be connected to Wide area network by using routers.

**Home area network**

A [home area network](http://en.wikipedia.org/wiki/Home_area_network) (HAN) is a residential LAN which is used for communication between digital devices typically deployed in the home, usually a small number of personal computers and accessories, such as printers and mobile computing devices. An important function is the sharing of Internet access, often a broadband service through a cable TV or [Digital Subscriber Line](http://en.wikipedia.org/wiki/Digital_Subscriber_Line) (DSL) provider.

**Storage area network**

A [storage area network](http://en.wikipedia.org/wiki/Storage_area_network) (SAN) is a dedicated network that provides access to consolidated, block level data storage. SANs are primarily used to make storage devices, such as disk arrays, tape libraries, and optical jukeboxes, accessible to servers so that the devices appear like locally attached devices to the operating system. A SAN typically has its own network of storage devices that are generally not accessible through the local area network by other devices. The cost and complexity of SANs dropped in the early 2000s to levels allowing wider adoption across both enterprise and small to medium sized business environments.

**Campus area network**

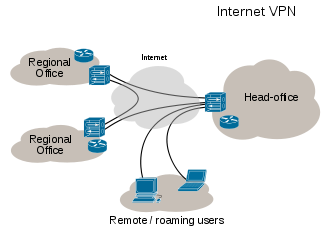
A [campus area network](http://en.wikipedia.org/wiki/Campus_area_network) (CAN) is a computer network made up of an interconnection of LANs within a limited geographical area. The networking equipment (switches, routers) and transmission media (optical fiber, copper plant, [Cat5](http://en.wikipedia.org/wiki/Category_5_cable) cabling etc.) are almost entirely owned (by the campus tenant / owner: an enterprise, university, government etc.).

In the case of a university campus-based campus network, the network is likely to link a variety of campus buildings including, for example, academic colleges or departments, the university library, and student residence halls.

**Backbone network**

A [backbone network](http://en.wikipedia.org/wiki/Backbone_network) is part of a computer network infrastructure that interconnects various pieces of network, providing a path for the exchange of information between different LANs or subnetworks. A backbone can tie together diverse networks in the same building, in different buildings in a campus environment, or over wide areas. Normally, the backbone's capacity is greater than that of the networks connected to it.

A large corporation which has many locations may have a backbone network that ties all of these locations together, for example, if a server cluster needs to be accessed by different departments of a company which are located at different geographical locations. The equipment which ties these departments together constitute the network backbone. [Network performance management](http://en.wikipedia.org/wiki/Network_performance_management) including[network congestion](http://en.wikipedia.org/wiki/Network_congestion) are critical parameters taken into account when designing a network backbone.

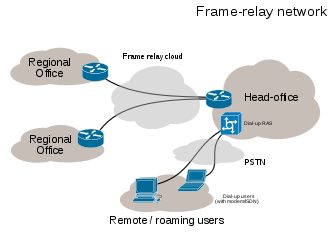
[](http://en.wikipedia.org/wiki/File:Virtual_Private_Network_overview.svg)A specific case of a backbone network is the [Internet backbone](http://en.wikipedia.org/wiki/Internet_backbone), which is the set of wide-area network connections and [core routers](http://en.wikipedia.org/wiki/Core_router) that interconnect all networks connected to the [Internet](http://en.wikipedia.org/wiki/Internet).

**Metropolitan area network**

A [Metropolitan area network](http://en.wikipedia.org/wiki/Metropolitan_area_network) (MAN) is a large computer network that usually spans a city or a large campus.

Sample EPN made of [Frame relay](http://en.wikipedia.org/wiki/Frame_relay) WAN connections and dialup remote access.

**Wide area network**

[](http://en.wikipedia.org/wiki/File:EPN_Frame-Relay_and_Dial-up_Network.svg)A [wide area network](http://en.wikipedia.org/wiki/Wide_area_network) (WAN) is a computer network that covers a large geographic area such as a city, country, or spans even intercontinental distances, using a communications channel that combines many types of media such as telephone lines, cables, and air waves. A WAN often uses transmission facilities provided by common carriers, such as telephone companies. WAN technologies generally function at the lower three layers of the [OSI reference model](http://en.wikipedia.org/wiki/OSI_model): the [physical layer](http://en.wikipedia.org/wiki/Physical_layer), the [data link layer](http://en.wikipedia.org/wiki/Data_link_layer), and the [network layer](http://en.wikipedia.org/wiki/Network_layer).

**Enterprise private network**

An [enterprise private network](http://en.wikipedia.org/wiki/Enterprise_private_network) is a network built by an enterprise to interconnect various company sites, e.g., production sites, head offices, remote offices, shops, in order to share computer resources.

**Virtual private network**

A [virtual private network](http://en.wikipedia.org/wiki/Virtual_private_network) (VPN) is a computer network in which some of the links between nodes are carried by open connections or virtual circuits in some larger network (e.g., the Internet) instead of by physical wires. The data link layer protocols of the virtual network are said to be tunneled through the larger network when this is the case. One common application is secure communications through the public Internet, but a VPN need not have explicit security features, such as authentication or content encryption. VPNs, for example, can be used to separate the traffic of different user communities over an underlying network with strong security features.

VPN may have best-effort performance, or may have a defined service level agreement (SLA) between the VPN customer and the VPN service provider. Generally, a VPN has a topology more complex than point-to-point.

**Internetwork**

An [internetwork](http://en.wikipedia.org/wiki/Internetwork) is the connection of multiple computer networks via a common routing technology using routers. The [Internet](http://en.wikipedia.org/wiki/Internet) is an aggregation of many connected internetworks spanning the [Earth](http://en.wikipedia.org/wiki/Earth).

## Asymmetric digital subscriber line

**Asymmetric digital subscriber line** (**ADSL**) is a type of [digital subscriber line](http://en.wikipedia.org/wiki/Digital_subscriber_line) technology, a data communications technology that enables faster data transmission over [copper](http://en.wikipedia.org/wiki/Copper) [telephone lines](http://en.wikipedia.org/wiki/Telephone_line) than a conventional [voiceband](http://en.wikipedia.org/wiki/Voiceband) [modem](http://en.wikipedia.org/wiki/Modem) can provide. It does this by utilizing frequencies that are not used by a voice [telephone call](http://en.wikipedia.org/wiki/Telephone_call).[[1]](http://en.wikipedia.org/wiki/Adsl#cite_note-0) A splitter, or [DSL filter](http://en.wikipedia.org/wiki/DSL_filter), allows a single telephone connection to be used for both ADSL service and voice calls at the same time. ADSL can generally only be distributed over short distances from the [telephone exchange](http://en.wikipedia.org/wiki/Telephone_exchange) (the [last mile](http://en.wikipedia.org/wiki/Last_mile)), typically less than 4 kilometres (2 mi),[[2]](http://en.wikipedia.org/wiki/Adsl#cite_note-1) but has been known to exceed 8 kilometres (5 mi) if the originally laid [wire gauge](http://en.wikipedia.org/wiki/Wire_gauge) allows for further distribution.

At the telephone exchange the line generally terminates at a [digital subscriber line access multiplexer](http://en.wikipedia.org/wiki/Digital_subscriber_line_access_multiplexer) (DSLAM) where another frequency splitter separates the voice band [signal](http://en.wikipedia.org/wiki/Signal_(electronics)) for the conventional [phone network](http://en.wikipedia.org/wiki/Telecommunications_network). Data carried by the ADSL are typically routed over the [telephone company](http://en.wikipedia.org/wiki/Telephone_company)'s data network and eventually reach a conventional [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) network.

**Overview**

ADSL differs from the less common [symmetric digital subscriber line](http://en.wikipedia.org/wiki/Symmetric_digital_subscriber_line) (SDSL) in that [bandwidth](http://en.wikipedia.org/wiki/Bandwidth_(computing)) (and [bit rate](http://en.wikipedia.org/wiki/Bit_rate)) is greater toward the customer premises (known as[downstream](http://en.wikipedia.org/wiki/Downstream_(networking))) than the reverse (known as [upstream](http://en.wikipedia.org/wiki/Upstream_(networking))). This is why it is called asymmetric. Providers usually market ADSL as a service for consumers to provide [Internet access](http://en.wikipedia.org/wiki/Internet_access) in a relatively passive mode: able to use the higher speed direction for the [download](http://en.wikipedia.org/wiki/Download) from the Internet but not needing to run servers that would require high speed in the other direction.

There are both technical and marketing reasons why ADSL is in many places the most common type offered to home users. On the technical side, there is likely to be more [crosstalk](http://en.wikipedia.org/wiki/Crosstalk) from other circuits at the DSLAM end (where the wires from many local loops are close to each other) than at the customer premises. Thus the upload signal is weakest at the noisiest part of the local loop, while the download signal is strongest at the noisiest part of the local loop. It therefore makes technical sense to have the DSLAM transmit at a higher bit rate than does the modem on the customer end. Since the typical home user in fact does prefer a higher download speed, the telephone companies chose to make a virtue out of necessity, hence ADSL. On the marketing side, limiting upload speeds limits the attractiveness of this service to business customers, often causing them to purchase higher cost [leased line](http://en.wikipedia.org/wiki/Leased_line) services instead. In this fashion, it segments the digital communications market between business and home users.

## Integrated Services Digital Network

**Integrated Services Digital Network** (**ISDN**) is a set of communications standards for simultaneous [digital](http://en.wikipedia.org/wiki/Digital) [transmission](http://en.wikipedia.org/wiki/Transmission_(telecommunications)) of voice, video, data, and other network services over the traditional circuits of the [public switched telephone network](http://en.wikipedia.org/wiki/Public_switched_telephone_network). It was first defined in 1988 in the [CCITT](http://en.wikipedia.org/wiki/CCITT) red book.[[1]](http://en.wikipedia.org/wiki/Isdn#cite_note-0) Prior to ISDN, the telephone system was viewed as a way to transport voice, with some special services available for data. The key feature of ISDN is that it integrates speech and data on the same lines, adding features that were not available in the [classic telephone system](http://en.wikipedia.org/wiki/Plain_old_telephone_service). There are several kinds of access interfaces to ISDN defined as [Basic Rate Interface](http://en.wikipedia.org/wiki/Basic_Rate_Interface) (BRI), [Primary Rate Interface](http://en.wikipedia.org/wiki/Primary_Rate_Interface) (PRI) and [Broadband ISDN](http://en.wikipedia.org/wiki/Broadband_ISDN) (B-ISDN).

ISDN is a [circuit-switched](http://en.wikipedia.org/wiki/Circuit_switching) [telephone network](http://en.wikipedia.org/wiki/Telephone_network) system, which also provides access to [packet switched networks](http://en.wikipedia.org/wiki/Packet_switched_network), designed to allow digital transmission of voice and [data](http://en.wikipedia.org/wiki/Data) over ordinary [telephone copper wires](http://en.wikipedia.org/wiki/Twisted_pair), resulting in potentially better voice quality than an analog phone can provide. It offers circuit-switched connections (for either voice or data), and packet-switched connections (for data), in increments of 64 [kilobit](http://en.wikipedia.org/wiki/Kilobit)/s. A major market application for ISDN in some countries is [Internet access](http://en.wikipedia.org/wiki/Internet_access), where ISDN typically provides a maximum of 128 kbit/s in both upstream and downstream directions. [Channel bonding](http://en.wikipedia.org/wiki/Channel_bonding) can achieve a greater data rate; typically the ISDN B-channels of 3 or 4 BRIs (6 to 8 64 kbit/s channels) are bonded.

However, common use reduced ISDN to be limited to Q.931 and related protocols, which are a set of [protocols](http://en.wikipedia.org/wiki/Protocol_(computing)) for [establishing and breaking circuit switched connections](http://en.wikipedia.org/wiki/Signalling_(telecommunications)), and for advanced [calling features](http://en.wikipedia.org/wiki/Calling_feature) for the user. They were introduced in 1986.[[2]](http://en.wikipedia.org/wiki/Isdn#cite_note-1)

In a [videoconference](http://en.wikipedia.org/wiki/Videoconference), ISDN provides simultaneous voice, video, and text transmission between individual desktop videoconferencing systems and group (room) videoconferencing systems.

## Local area network

A **local area network (LAN)** is a [computer network](http://en.wikipedia.org/wiki/Computer_network) that interconnects computers in a limited area such as a home, school, computer laboratory, or office building using network media.[[1]](http://en.wikipedia.org/wiki/Local_area_network#cite_note-0) The defining characteristics of LANs, in contrast to [wide area networks](http://en.wikipedia.org/wiki/Wide_area_network) (WANs), include their usually higher [data-transfer rates](http://en.wikipedia.org/wiki/Bit_rate), smaller geographic area, and lack of a need for [leased telecommunication lines](http://en.wikipedia.org/wiki/Leased_line).

[ARCNET](http://en.wikipedia.org/wiki/ARCNET), [Token Ring](http://en.wikipedia.org/wiki/Token_Ring) and other technology standards have been used in the past, but [Ethernet](http://en.wikipedia.org/wiki/Ethernet) over [twisted pair](http://en.wikipedia.org/wiki/Twisted_pair) cabling, and [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi) are the two most common technologies currently used to build LANs.

## Ethernet

**Ethernet** play [/](http://en.wikipedia.org/wiki/Wikipedia:IPA_for_English)[ˈiːθərnɛt](http://en.wikipedia.org/wiki/Wikipedia:IPA_for_English#Key)[/](http://en.wikipedia.org/wiki/Wikipedia:IPA_for_English) is a family of [computer networking](http://en.wikipedia.org/wiki/Computer_network) technologies for [local area networks](http://en.wikipedia.org/wiki/Local_area_network) (LANs). Ethernet was commercially introduced in 1980 and standardized in 1985 as [IEEE 802.3](http://en.wikipedia.org/wiki/IEEE_802.3). Ethernet has largely replaced competing wired LAN technologies.

The [Ethernet standards](http://en.wikipedia.org/wiki/Category:Ethernet_standards) comprise several wiring and signaling variants of the [OSI physical layer](http://en.wikipedia.org/wiki/Physical_layer) in use with Ethernet. The original [10BASE5](http://en.wikipedia.org/wiki/10BASE5) Ethernet used[coaxial cable](http://en.wikipedia.org/wiki/Coaxial_cable) as a [shared medium](http://en.wikipedia.org/wiki/Shared_medium). Later the coaxial cables were replaced by [twisted pair](http://en.wikipedia.org/wiki/Twisted_pair) and [fiber optic](http://en.wikipedia.org/wiki/Optical_fiber) links in conjunction with [hubs](http://en.wikipedia.org/wiki/Ethernet_hub) or [switches](http://en.wikipedia.org/wiki/Ethernet_switch). Data rates were periodically increased from the original 10 megabits per second, to 100 gigabits per second.

Systems communicating over Ethernet divide a stream of data into shorter pieces called [frames](http://en.wikipedia.org/wiki/Frame_(networking)). Each frame contains source and destination addresses and error-checking data so that damaged data can be detected and re-transmitted. As per the [OSI model](http://en.wikipedia.org/wiki/OSI_model) Ethernet provides services up to and including the [data link layer](http://en.wikipedia.org/wiki/Data_link_layer).

Since its commercial release, Ethernet has retained a good degree of compatibility. Features such as the 48-bit [MAC address](http://en.wikipedia.org/wiki/MAC_address) and [Ethernet frame](http://en.wikipedia.org/wiki/Ethernet_frame) format have influenced other networking protocols.

## Extranet

An **extranet** is a [computer network](http://en.wikipedia.org/wiki/Computer_network) that allows controlled access from the outside, for specific business or educational purposes. In a [business-to-business](http://en.wikipedia.org/wiki/Business-to-business) context, an extranet can be viewed as an extension of an organization's [intranet](http://en.wikipedia.org/wiki/Intranet) that is extended to users outside the organization, usually partners, vendors, and suppliers, in isolation from all other Internet users. In contrast, [business-to-consumer](http://en.wikipedia.org/wiki/Business-to-consumer) (B2C) models involve known servers of one or more companies, communicating with previously unknown consumer users. An extranet is similar to a [DMZ](http://en.wikipedia.org/wiki/DMZ_(computing)) in that it provides access to needed services for channel partners, without granting access to an organization's entire network.

## Intranet

An **intranet** is a [computer network](http://en.wikipedia.org/wiki/Computer_network) that uses [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) technology to share information, operational systems, or computing services within an organization. The term is used in contrast to*internet*, a network between organizations, and instead refers to a network within an organization. Sometimes, the term refers only to the organization's internal [website](http://en.wikipedia.org/wiki/Website), but may be a more extensive part of the organization's information technology infrastructure, and may be composed of multiple [local area networks](http://en.wikipedia.org/wiki/Local_area_network). The objective is to organise each individual's desktop with minimal cost, time and effort to be more productive, cost efficient, timely and competitive.

An intranet may host multiple private websites and constitute an important component and focal point of internal communication and collaboration. Any of the well known Internet protocols may be found in an intranet, such as [HTTP](http://en.wikipedia.org/wiki/HTTP) (web services), [SMTP](http://en.wikipedia.org/wiki/SMTP) (e-mail), and [FTP](http://en.wikipedia.org/wiki/File_Transfer_Protocol) (file transfer protocol). Internet technologies are often deployed to provide modern interfaces to legacy information systems hosting corporate data.

An intranet can be understood as a private analog of the [Internet](http://en.wikipedia.org/wiki/Internet), or as a private extension of the Internet confined to an organization. The first intranet websites and home pages began to appear in organizations in 1996-1997. Although not officially noted, the term intranet first became common-place among early adopters, such as universities and technology corporations, in 1992.[[*dubious*](http://en.wikipedia.org/wiki/Wikipedia:Disputed_statement)*–*[*discuss*](http://en.wikipedia.org/wiki/Talk:Intranet#Dubious)]

Intranets are sometimes contrasted to [extranets](http://en.wikipedia.org/wiki/Extranet). While intranets are generally restricted to employees of the organization, extranets may also be accessed by customers, suppliers, or other approved parties.[[1]](http://en.wikipedia.org/wiki/Intranet#cite_note-0) Extranets extend a private network onto the Internet with special provisions for authentication, authorization and accounting ([AAA protocol](http://en.wikipedia.org/wiki/AAA_protocol)).

In many organizations, intranets are protected from unauthorized external access by means of a network [gateway](http://en.wikipedia.org/wiki/Gateway_(telecommunications)) and [firewall](http://en.wikipedia.org/wiki/Firewall_(networking)). For smaller companies, intranets may be created simply by using private IP address ranges, such as 192.168.0.0/16. In these cases, the intranet can only be directly accessed from a computer in the local network; however, companies may provide access to off-site employees by using a [virtual private network](http://en.wikipedia.org/wiki/Virtual_private_network), or by other access methods, requiring user [authentication](http://en.wikipedia.org/wiki/Authentication) and [encryption](http://en.wikipedia.org/wiki/Encryption).

## Networking cables

**Networking cables** are used to connect one network device to other or to connect two or more computers to share [printer](http://en.wikipedia.org/wiki/Printer_(computing)), [scanner](http://en.wikipedia.org/wiki/Image_scanner) etc. Different types of network cables like [Coaxial cable](http://en.wikipedia.org/wiki/Coaxial_cable), [Optical fiber cable](http://en.wikipedia.org/wiki/Optical_fiber_cable), [Twisted Pair](http://en.wikipedia.org/wiki/Twisted_Pair) cables are used depending on the network's [topology](http://en.wikipedia.org/wiki/Network_topology), [protocol](http://en.wikipedia.org/wiki/Network_Protocols) and size. The devices can be separated by a few meters (e.g. via [Ethernet](http://en.wikipedia.org/wiki/Ethernet)) or nearly unlimited distances (e.g. via the interconnections of the [Internet](http://en.wikipedia.org/wiki/Internet)).

While [wireless](http://en.wikipedia.org/wiki/Wireless_network) may be the wave of the future, most [computer networks](http://en.wikipedia.org/wiki/Computer_networks) today still utilize cables to transfer signals from one point to another.[[1]](http://en.wikipedia.org/wiki/Network_cable#cite_note-0)

## Twisted pair

*Twisted pair* cabling is a form of wiring in which two conductors (the forward and return conductors of a single [circuit](http://en.wikipedia.org/wiki/Electronic_circuit)) are twisted together for the purposes of canceling out [electromagnetic interference](http://en.wikipedia.org/wiki/Electromagnetic_interference)(EMI) from external sources. This type of cable is used for home and corporate [Ethernet](http://en.wikipedia.org/wiki/Ethernet) networks. Twisted pair cables consist of two insulated copper wires. There are three types of twisted pair cables: Shielded, Unshielded and Foiled.

## Optical fiber cable

An 'optical fiber cable' is a [cable](http://en.wikipedia.org/wiki/Cable) containing one or more [optical fibers](http://en.wikipedia.org/wiki/Optical_fiber). The optical fiber elements are typically individually coated with plastic layers and contained in a protective tube suitable for the environment where the cable will be deployed. It carries light impulses. It is expensive but have higher bandwidth and transmit data over longer distance

## Coaxial cable

Coaxial lines confine the electromagnetic wave to the area inside the cable, between the center conductor and the shield. The transmission of energy in the line occurs totally through the dielectric inside the cable between the conductors. Coaxial lines can therefore be bent and twisted (subject to limits) without negative effects, and they can be strapped to conductive supports without inducing unwanted currents in them.

The most common use for coaxial cables is for television and other signals with bandwidth of multiple megahertz. Although in most homes coaxial cables have been installed for transmission of [TV](http://en.wikipedia.org/wiki/TV)signals, new technologies (such as the [ITU-T](http://en.wikipedia.org/wiki/ITU-T) [G.hn](http://en.wikipedia.org/wiki/G.hn) standard) open the possibility of using home coaxial cable for high-speed [home networking](http://en.wikipedia.org/wiki/Home_network) applications ([Ethernet over coax](http://en.wikipedia.org/wiki/Ethernet_over_coax)).

In the 20th century they carried [long distance network &telephone connections](http://en.wikipedia.org/w/index.php?title=Long_distance_network_%26telephone_connection&action=edit&redlink=1).

## Patch cable

A *patch cable* is an [electrical](http://en.wikipedia.org/wiki/Electric) or [optical](http://en.wikipedia.org/wiki/Optical) cable used to connect one electronic or optical device to another for [signal](http://en.wiktionary.org/wiki/signal) routing. Devices of different types (i.e. a switch connected to a computer, or a switch connected to a router) are connected with patch cords. It is a very fast connection speed. Patch cords are usually produced in many different colors so as to be easily distinguishable,[[2]](http://en.wikipedia.org/wiki/Network_cable#cite_note-1) and are relatively short, perhaps no longer than two metres.

## Ethernet crossover cable

An **Ethernet crossover cable** is a type of [Ethernet cable](http://en.wikipedia.org/wiki/Ethernet_cable) used to connect computing devices together directly where they would normally be connected via a [network switch](http://en.wikipedia.org/wiki/Network_switch), [hub](http://en.wikipedia.org/wiki/Network_hub) or [router](http://en.wikipedia.org/wiki/Router_(computing)), such as directly connecting two [personal computers](http://en.wikipedia.org/wiki/Personal_computer) via their [network](http://en.wikipedia.org/wiki/Computer_networking) adapters. Cross Cable is used to connect the same devices such as pc to pc, hub to hub, switch to switch etc.but i have noticed that a cross over cable can be used to connect two devices of different types, NO COMMENTS for straight cable in this context.

## Router

A **router** is a device that forwards [data packets](http://en.wikipedia.org/wiki/Data_packet) between [computer networks](http://en.wikipedia.org/wiki/Computer_network), creating an overlay [internetwork](http://en.wikipedia.org/wiki/Internetwork). A router is connected to two or more data lines from different networks. When a data packet comes in on one of the lines, the router reads the address information in the packet to determine its ultimate destination. Then, using information in its [routing table](http://en.wikipedia.org/wiki/Routing_table) or [routing policy](http://en.wikipedia.org/wiki/Routing_policy), it directs the packet to the next network on its journey. Routers perform the "traffic directing" functions on the [Internet](http://en.wikipedia.org/wiki/Internet). A data packet is typically forwarded from one router to another through the networks that constitute the internetwork until it gets to its destination node.[[1]](http://en.wikipedia.org/wiki/Router_(computing)#cite_note-0)

The most familiar type of routers are [home and small office routers](http://en.wikipedia.org/wiki/Home_router) that simply pass data, such as web pages and email, between the home computers and the owner's [cable](http://en.wikipedia.org/wiki/Cable_modem) or [DSL modem](http://en.wikipedia.org/wiki/DSL_modem), which connects to the Internet through an [ISP](http://en.wikipedia.org/wiki/Internet_service_provider). More sophisticated routers, such as enterprise routers, connect large business or ISP networks up to the powerful [core routers](http://en.wikipedia.org/wiki/Core_router) that forward data at high speed along the [optical fiber](http://en.wikipedia.org/wiki/Optical_fiber) lines of the [Internet backbone](http://en.wikipedia.org/wiki/Internet_backbone).

## Wireless

**Wireless** [telecommunications](http://en.wikipedia.org/wiki/Telecommunication) is the transfer of information between two or more points that are not physically connected. Distances can be short, such as a few metres for [television](http://en.wikipedia.org/wiki/Television) remote control, or as far as thousands or even millions of kilometres for deep-space radio communications. It encompasses various types of fixed, mobile, and portable [two-way radios](http://en.wikipedia.org/wiki/Two-way_radio), [cellular telephones](http://en.wikipedia.org/wiki/Mobile_phone), [personal digital assistants](http://en.wikipedia.org/wiki/Personal_digital_assistant) (PDAs), and [wireless networking](http://en.wikipedia.org/wiki/Wireless_network). Other examples of*wireless technology* include [GPS](http://en.wikipedia.org/wiki/Global_Positioning_System) units, [Garage door openers](http://en.wikipedia.org/wiki/Garage_door_opener) or garage doors, wireless [computer mice](http://en.wikipedia.org/wiki/Mouse_(computing)), [keyboards](http://en.wikipedia.org/wiki/Keyboard_(computing)) and [Headset (audio)](http://en.wikipedia.org/wiki/Headset_(audio)), [headphones](http://en.wikipedia.org/wiki/Headphone), [radio receivers](http://en.wikipedia.org/wiki/Radio_receiver), [satellite television](http://en.wikipedia.org/wiki/Satellite_television), [broadcast television](http://en.wikipedia.org/wiki/Broadcast_television) and cordless [telephones](http://en.wikipedia.org/wiki/Telephone).

Introduction

Wireless operations permit services, such as long range communications, that are impossible or impractical to implement with the use of wires. The term is commonly used in the telecommunications industry to refer to telecommunications systems (e.g. radio transmitters and receivers, remote controls, computer networks, network terminals, etc.) which use some form of energy (e.g. [radio frequency](http://en.wikipedia.org/wiki/Radio_frequency) (RF),acoustic energy, etc.) to transfer information without the use of wires.[[1]](http://en.wikipedia.org/wiki/Wireless#cite_note-FS1037C-0) Information is transferred in this manner over both short and long distances.

Wireless services

Common examples of wireless equipment include:

* Telemetry control and traffic control systems
* Infrared and ultrasonic remote control devices
* Modulated laser light systems for point to point communications
* Professional LMR ([Land Mobile Radio](http://en.wikipedia.org/wiki/Land_Mobile_Radio)) and SMR (Specialized [Mobile Radio](http://en.wikipedia.org/wiki/Mobile_Radio)) typically used by business, industrial and Public Safety entities.
* Consumer [Two way radio](http://en.wikipedia.org/wiki/Two_way_radio) including FRS [Family Radio Service](http://en.wikipedia.org/wiki/Family_Radio_Service), GMRS (General Mobile Radio Service) and Citizens band ("CB") radios.
* The [Amateur Radio](http://en.wikipedia.org/wiki/Amateur_Radio) Service (Ham radio).
* Consumer and professional [Marine VHF radios](http://en.wikipedia.org/wiki/Marine_radio).
* [Airband](http://en.wikipedia.org/wiki/Airband) and [radio navigation](http://en.wikipedia.org/wiki/Radio_navigation) equipment used by [aviators](http://en.wikipedia.org/wiki/Aviator) and [air traffic control](http://en.wikipedia.org/wiki/Air_traffic_control)
* [Cellular telephones](http://en.wikipedia.org/wiki/Cellular_telephone) and pagers: provide connectivity for portable and mobile applications, both personal and business.
* [Global Positioning System](http://en.wikipedia.org/wiki/Global_Positioning_System) (GPS): allows drivers of cars and trucks, captains of boats and ships, and pilots of aircraft to ascertain their location anywhere on earth.[[2]](http://en.wikipedia.org/wiki/Wireless#cite_note-1)
* Cordless computer peripherals: the cordless mouse is a common example; keyboards and printers can also be linked to a computer via wireless using technology such as [Wireless USB](http://en.wikipedia.org/wiki/Wireless_USB) or[Bluetooth](http://en.wikipedia.org/wiki/Bluetooth)
* [Cordless telephone](http://en.wikipedia.org/wiki/Cordless_telephone) sets: these are limited-range devices, not to be confused with cell phones.
* [Satellite television](http://en.wikipedia.org/wiki/Satellite_television): Is broadcast from satellites in [geostationary orbit](http://en.wikipedia.org/wiki/Geostationary_orbit). Typical services use [direct broadcast satellite](http://en.wikipedia.org/wiki/Direct_broadcast_satellite) to provide multiple [television](http://en.wikipedia.org/wiki/Television) channels to viewers.

Wireless networks

[Wireless networking](http://en.wikipedia.org/wiki/Wireless_networking) (i.e. the various types of unlicensed 2.4 GHz WiFi devices) is used to meet many needs. Perhaps the most common use is to connect laptop users who travel from location to location. Another common use is for mobile networks that connect via satellite. A wireless transmission method is a logical choice to network a LAN segment that must frequently change locations. The following situations justify the use of wireless technology:

* To span a distance beyond the capabilities of typical cabling,
* To provide a backup communications link in case of normal network failure,
* To link portable or temporary workstations,
* To overcome situations where normal cabling is difficult or financially impractical, or
* To remotely connect mobile users or networks.

Modes

*Wireless communications* can be via:

* [radio](http://en.wikipedia.org/wiki/Radio) frequency communication,
* [microwave](http://en.wikipedia.org/wiki/Microwave) communication, for example long-range line-of-sight via highly directional antennas, or short-range communication,
* [infrared](http://en.wikipedia.org/wiki/Infrared) (IR) short-range communication, for example from [consumer IR](http://en.wikipedia.org/wiki/Consumer_IR) devices such as [remote controls](http://en.wikipedia.org/wiki/Remote_control) or via [Infrared Data Association](http://en.wikipedia.org/wiki/Infrared_Data_Association) (IrDA).

Applications may involve [point-to-point communication](http://en.wikipedia.org/wiki/Point-to-point_(telecommunications)), [point-to-multipoint communication](http://en.wikipedia.org/wiki/Point-to-multipoint_communication), [broadcasting](http://en.wikipedia.org/wiki/Broadcasting), [cellular networks](http://en.wikipedia.org/wiki/Cellular_network) and other [wireless networks](http://en.wikipedia.org/wiki/Wireless_network).

## Applications of wireless technology

### Mobile telephones

One of the best-known examples of wireless technology is the [mobile phone](http://en.wikipedia.org/wiki/Mobile_phone), also known as a cellular phone, with more than 4.6 billion mobile cellular subscriptions worldwide as of the end of 2010.[[6]](http://en.wikipedia.org/wiki/Wireless#cite_note-5)These wireless phones use radio waves to enable their users to make phone calls from many locations worldwide. They can be used within range of the [mobile telephone site](http://en.wikipedia.org/wiki/Cell_site) used to house the equipment required to transmit and receive the [radio signals](http://en.wikipedia.org/wiki/Radio) from these instruments.

### Wireless data communications

Wireless data communications are an essential component of mobile computing.[[7]](http://en.wikipedia.org/wiki/Wireless#cite_note-TCO_Insights-6) The various available technologies differ in local availability, coverage range and performance,[[8]](http://en.wikipedia.org/wiki/Wireless#cite_note-Geeks-7)[[9]](http://en.wikipedia.org/wiki/Wireless#cite_note-8) and in some circumstances, users must be able to employ multiple connection types and switch between them. To simplify the experience for the user, connection manager software can be used,[[10]](http://en.wikipedia.org/wiki/Wireless#cite_note-9)[[11]](http://en.wikipedia.org/wiki/Wireless#cite_note-10) or a [mobile VPN](http://en.wikipedia.org/wiki/Mobile_virtual_private_network) deployed to handle the multiple connections as a secure, single [virtual network](http://en.wikipedia.org/wiki/Virtual_network).[[12]](http://en.wikipedia.org/wiki/Wireless#cite_note-11) Supporting technologies include:

**Wi-Fi** is a wireless [local area network](http://en.wikipedia.org/wiki/Local_area_network) that enables portable computing devices to connect easily to the [Internet](http://en.wikipedia.org/wiki/Internet).[[13]](http://en.wikipedia.org/wiki/Wireless#cite_note-12) Standardized as [IEEE 802.11](http://en.wikipedia.org/wiki/IEEE_802.11) a,b,g,n, [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi) approaches speeds of some types of wired [Ethernet](http://en.wikipedia.org/wiki/Ethernet). Wi-Fi has become the de facto standard for access in private homes, within offices, and at public hotspots.[[14]](http://en.wikipedia.org/wiki/Wireless#cite_note-13) Some businesses charge customers a monthly fee for service, while others have begun offering it for free in an effort to increase the sales of their goods.[[15]](http://en.wikipedia.org/wiki/Wireless#cite_note-14)

**Cellular data service** offers coverage within a range of 10-15 miles from the nearest [cell site](http://en.wikipedia.org/wiki/Cell_site).[[8]](http://en.wikipedia.org/wiki/Wireless#cite_note-Geeks-7) Speeds have increased as technologies have evolved, from earlier technologies such as [GSM](http://en.wikipedia.org/wiki/GSM),[CDMA](http://en.wikipedia.org/wiki/Code_division_multiple_access) and [GPRS](http://en.wikipedia.org/wiki/General_Packet_Radio_Service), to [3G](http://en.wikipedia.org/wiki/3G) networks such as [W-CDMA](http://en.wikipedia.org/wiki/W-CDMA_(UMTS)), [EDGE](http://en.wikipedia.org/wiki/Enhanced_Data_Rates_for_GSM_Evolution) or [CDMA2000](http://en.wikipedia.org/wiki/CDMA2000).[[16]](http://en.wikipedia.org/wiki/Wireless#cite_note-15)[[17]](http://en.wikipedia.org/wiki/Wireless#cite_note-16)

**Mobile Satellite Communications** may be used where other wireless connections are unavailable, such as in largely rural areas[[18]](http://en.wikipedia.org/wiki/Wireless#cite_note-17) or remote locations.[[8]](http://en.wikipedia.org/wiki/Wireless#cite_note-Geeks-7) [Satellite communications](http://en.wikipedia.org/wiki/Communications_satellite) are especially important for [transportation](http://en.wikipedia.org/wiki/Transport), [aviation](http://en.wikipedia.org/wiki/Aviation), [maritime](http://en.wikipedia.org/wiki/Sea) and [military](http://en.wikipedia.org/wiki/Military) use.[[19]](http://en.wikipedia.org/wiki/Wireless#cite_note-18)

### Wireless energy transfer

*Main article:*[*Wireless energy transfer*](http://en.wikipedia.org/wiki/Wireless_energy_transfer)

Wireless energy transfer is a process whereby electrical energy is transmitted from a power source to an electrical load that does not have a built-in power source, without the use of interconnecting wires.

### Computer interface devices

Answering the call of customers frustrated with cord clutter, many manufactures of computer peripherals turned to wireless technology to satisfy their consumer base. Originally these units used bulky, highly limited transceivers to mediate between a computer and a keyboard and mouse, however more recent generations have used small, high quality devices, some even incorporating [Bluetooth](http://en.wikipedia.org/wiki/Bluetooth). These systems have become so ubiquitous that some users have begun complaining about a lack of wired peripherals.[[*who?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] Wireless devices tend to have a slightly slower response time than their wired counterparts, however the gap is decreasing. Concerns about the security of wireless keyboards arose at the end of 2007, when it was revealed that Microsoft's implementation of encryption in some of its 27 MHz models was highly insecure.[[20]](http://en.wikipedia.org/wiki/Wireless#cite_note-19)

## 

## Categories of wireless implementations, devices and standards

* [Radio communication system](http://en.wikipedia.org/wiki/Radio_communication_system)
* [Broadcasting](http://en.wikipedia.org/wiki/Broadcasting)
* [Amateur radio](http://en.wikipedia.org/wiki/Amateur_radio)
* [Land Mobile Radio](http://en.wikipedia.org/wiki/Land_Mobile_Radio_System) or [Professional Mobile Radio](http://en.wikipedia.org/wiki/Professional_Mobile_Radio): [TETRA](http://en.wikipedia.org/wiki/Terrestrial_Trunked_Radio), [P25](http://en.wikipedia.org/wiki/Project_25), [OpenSky](http://en.wikipedia.org/wiki/OpenSky), [EDACS](http://en.wikipedia.org/wiki/EDACS), [DMR](http://en.wikipedia.org/wiki/Digital_Mobile_Radio), [dPMR](http://en.wikipedia.org/wiki/DPMR)
* [Cordless telephony](http://en.wikipedia.org/wiki/Cordless_telephone):DECT ([Digital Enhanced Cordless Telecommunications](http://en.wikipedia.org/wiki/Digital_Enhanced_Cordless_Telecommunications))
* [Cellular networks](http://en.wikipedia.org/wiki/Cellular_network): [0G](http://en.wikipedia.org/wiki/0G), [1G](http://en.wikipedia.org/wiki/1G), [2G](http://en.wikipedia.org/wiki/2G), [3G](http://en.wikipedia.org/wiki/3G), [Beyond 3G (4G)](http://en.wikipedia.org/wiki/4G), Future wireless
* [List of emerging technologies](http://en.wikipedia.org/wiki/List_of_emerging_technologies)
* Short-range point-to-point communication : [Wireless microphones](http://en.wikipedia.org/wiki/Wireless_microphone), [Remote controls](http://en.wikipedia.org/wiki/Remote_control), [IrDA](http://en.wikipedia.org/wiki/Infrared_Data_Association), [RFID (Radio Frequency Identification)](http://en.wikipedia.org/wiki/Radio-frequency_identification), [TransferJet](http://en.wikipedia.org/wiki/TransferJet), [Wireless USB](http://en.wikipedia.org/wiki/Wireless_USB), [DSRC (Dedicated Short Range Communications)](http://en.wikipedia.org/wiki/Dedicated_short-range_communications), [EnOcean](http://en.wikipedia.org/wiki/EnOcean), [Near Field Communication](http://en.wikipedia.org/wiki/Near_Field_Communication)
* [Wireless sensor networks](http://en.wikipedia.org/wiki/Wireless_sensor_network): [ZigBee](http://en.wikipedia.org/wiki/ZigBee), [EnOcean](http://en.wikipedia.org/wiki/EnOcean); [Personal area networks](http://en.wikipedia.org/wiki/Personal_area_network), [Bluetooth](http://en.wikipedia.org/wiki/Bluetooth), [TransferJet](http://en.wikipedia.org/wiki/TransferJet), [Ultra-wideband](http://en.wikipedia.org/wiki/Ultra-wideband) (UWB from [WiMedia Alliance](http://en.wikipedia.org/wiki/WiMedia_Alliance)).
* [Wireless networks](http://en.wikipedia.org/wiki/Wireless_network): [Wireless LAN](http://en.wikipedia.org/wiki/Wireless_LAN) (WLAN), ([IEEE 802.11](http://en.wikipedia.org/wiki/IEEE_802.11) branded as [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi) and [HiperLAN](http://en.wikipedia.org/wiki/HiperLAN)), [Wireless Metropolitan Area Networks](http://en.wikipedia.org/w/index.php?title=Wireless_Metropolitan_Area_Network&action=edit&redlink=1) (WMAN) and ([LMDS](http://en.wikipedia.org/wiki/Local_Multipoint_Distribution_Service), [WiMAX](http://en.wikipedia.org/wiki/WiMAX), and [HiperMAN](http://en.wikipedia.org/wiki/HiperMAN))

## WiMAX

**WiMAX** (**Worldwide Interoperability for Microwave Access**) is a [wireless](http://en.wikipedia.org/wiki/Wireless) communications standard designed to provide 30 to 40 megabit-per-second data rates,[[1]](http://en.wikipedia.org/wiki/Wimax#cite_note-0) with the 2011 update providing up to 1 Gbit/s for fixed stations. It is a part of a “fourth generation,” or [4G](http://en.wikipedia.org/wiki/4G), of wireless-communication technology. WiMax far surpasses the 30-metre wireless range of a conventional [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi) [local area network](http://en.wikipedia.org/wiki/Local_area_network) (LAN), offering a metropolitan area network with a signal radius of about 50 km. The name "WiMAX" was created by the **WiMAX Forum**, which was formed in June 2001 to promote conformity and interoperability of the standard. The forum describes WiMAX as "a standards-based technology enabling the delivery of [last mile](http://en.wikipedia.org/wiki/Last_mile) wireless broadband access as an alternative to cable and DSL".[[2]](http://en.wikipedia.org/wiki/Wimax#cite_note-1) WiMax offers data-transfer rates that can be superior to conventional [cable-modem](http://en.wikipedia.org/wiki/Cable_broadband) and [DSL](http://en.wikipedia.org/wiki/DSL) connections, however, the bandwidth must be shared among multiple users and thus yields lower speeds in practice.[[3]](http://en.wikipedia.org/wiki/Wimax#cite_note-2)

# V Mobile phone

[](http://en.wikipedia.org/wiki/File:Two_Cell_Phones.png)[Page semi-protected](http://en.wikipedia.org/wiki/Wikipedia:Protection_policy#semi)

A **mobile phone** (also known as a **cellular phone**, **cell phone** and a **hand phone**) is a device that can make and receive [telephone calls](http://en.wikipedia.org/wiki/Telephone_call) over a [radio link](http://en.wikipedia.org/wiki/Radio_Link_Protocol) whilst moving around a wide geographic area. It does so by connecting to a [cellular network](http://en.wikipedia.org/wiki/Cellular_network) provided by a [mobile phone operator](http://en.wikipedia.org/wiki/Mobile_phone_operator), allowing access to the [public telephone network](http://en.wikipedia.org/wiki/PSTN). By contrast, a [cordless telephone](http://en.wikipedia.org/wiki/Cordless_telephone) is used only within the short range of a single, private base station.

In addition to telephony, modern mobile phones also support a wide variety of other [services](http://en.wikipedia.org/wiki/GSM_services) such as [text messaging](http://en.wikipedia.org/wiki/Text_messaging), [MMS](http://en.wikipedia.org/wiki/Multimedia_Messaging_Service), [email](http://en.wikipedia.org/wiki/Email), Internet access, short-range wireless communications ([infrared](http://en.wikipedia.org/wiki/Infrared_port), [Bluetooth](http://en.wikipedia.org/wiki/Bluetooth)), business applications, gaming and photography. Mobile phones that offer these and more general computing capabilities are referred to as [smartphones](http://en.wikipedia.org/wiki/Smartphone).

***Generations of mobile communication standards***

* **3G** or **3rd generation mobile telecommunications** is a generation of standards for [mobile phones](http://en.wikipedia.org/wiki/Mobile_phone) and [mobile telecommunication](http://en.wikipedia.org/wiki/Mobile_telecommunication) services fulfilling the **International Mobile Telecommunications-2000 (IMT-2000)** specifications by the [International Telecommunication Union](http://en.wikipedia.org/wiki/International_Telecommunication_Union).[[1]](http://en.wikipedia.org/wiki/3G_phones#cite_note-0) Application services include wide-area wireless voice [telephone](http://en.wikipedia.org/wiki/Telephone), [mobile Internet](http://en.wikipedia.org/wiki/Mobile_Internet) access, [video calls](http://en.wikipedia.org/wiki/Videotelephony) and [mobile TV](http://en.wikipedia.org/wiki/Multimedia_Broadcast_Multicast_Service), all in a mobile environment.

The following standards are typically branded 3G:

* the [UMTS](http://en.wikipedia.org/wiki/UMTS) system, first offered in 2001, standardized by [3GPP](http://en.wikipedia.org/wiki/3GPP), used primarily in Europe, Japan, China (however with a different radio interface) and other regions predominated by [GSM](http://en.wikipedia.org/wiki/GSM) [2G](http://en.wikipedia.org/wiki/2G) system infrastructure. The cell phones are typically UMTS and GSM hybrids. Several radio interfaces are offered, sharing the same infrastructure:
  + The original and most widespread radio interface is called [W-CDMA](http://en.wikipedia.org/wiki/W-CDMA).
  + The [TD-SCDMA](http://en.wikipedia.org/wiki/TD-SCDMA) radio interface was commercialised in 2009 and is only offered in China.
  + The latest UMTS release, [HSPA+](http://en.wikipedia.org/wiki/HSPA%2B), can provide peak data rates up to 56 Mbit/s in the downlink in theory (28 Mbit/s in existing services) and 22 Mbit/s in the uplink.
* the [CDMA2000](http://en.wikipedia.org/wiki/CDMA2000) system, first offered in 2002, standardized by [3GPP2](http://en.wikipedia.org/wiki/3GPP2), used especially in North America and South Korea, sharing infrastructure with the [IS-95](http://en.wikipedia.org/wiki/IS-95) 2G standard. The cell phones are typically CDMA2000 and IS-95 hybrids. The latest release [EVDO](http://en.wikipedia.org/wiki/EVDO) Rev B offers peak rates of 14.7 Mbit/s downstream.

The above systems and radio interfaces are based on [spread spectrum](http://en.wikipedia.org/wiki/Spread_spectrum) radio transmission technology. While the [GSM EDGE](http://en.wikipedia.org/wiki/Enhanced_Data_Rates_for_GSM_Evolution) standard ("2.9G"), [DECT](http://en.wikipedia.org/wiki/DECT) cordless phones and [Mobile WiMAX](http://en.wikipedia.org/wiki/Mobile_WiMAX) standards formally also fulfill the IMT-2000 requirements and are approved as 3G standards by ITU, these are typically not branded 3G, and are based on completely different technologies.

A new generation of cellular standards has appeared approximately every tenth year since [1G](http://en.wikipedia.org/wiki/1G) systems were introduced in 1981/1982. Each generation is characterized by new frequency bands, higher data rates and non backwards compatible transmission technology. The first release of the [3GPP Long Term Evolution](http://en.wikipedia.org/wiki/3GPP_Long_Term_Evolution) (LTE) standard does not completely fulfill the ITU 4G requirements called IMT-Advanced. First release LTE is not backwards compatible with 3G, but is a pre-4G or [3.9G](http://en.wikipedia.org/wiki/LTE_(telecommunication)) technology, however sometimes branded "4G" by the service providers. Its evolution [LTE Advanced](http://en.wikipedia.org/wiki/LTE_Advanced) is a [4G](http://en.wikipedia.org/wiki/4G)technology. [WiMAX](http://en.wikipedia.org/wiki/WiMAX) is another technology verging on or marketed as [4G](http://en.wikipedia.org/wiki/4G).

**Applications of 3G**

The bandwidth and location information available to 3G devices gives rise to applications not previously available to mobile phone users. Some of the applications are:

* [Mobile TV](http://en.wikipedia.org/wiki/Mobile_TV)
* [Video on demand](http://en.wikipedia.org/wiki/Video_on_demand)
* [Videoconferencing](http://en.wikipedia.org/wiki/Videoconferencing)
* [Telemedicine](http://en.wikipedia.org/wiki/Telemedicine)
* [Location-based services](http://en.wikipedia.org/wiki/Location-based_service)



* In [telecommunications](http://en.wikipedia.org/wiki/Telecommunication), **4G** is the fourth generation of [cell phone](http://en.wikipedia.org/wiki/Cellular_network) [mobile communications](http://en.wikipedia.org/wiki/Mobile_communication) standards. It is a successor of the [third generation](http://en.wikipedia.org/wiki/3G) (3G) standards. A 4G system provides [mobile ultra-broadband](http://en.wikipedia.org/wiki/Mobile_broadband) Internet access, for example to laptops with [USB](http://en.wikipedia.org/wiki/USB) [wireless modems](http://en.wikipedia.org/wiki/Wireless_modem), to [smartphones](http://en.wikipedia.org/wiki/Smartphone), and to other mobile devices. Conceivable applications include amended [mobile web](http://en.wikipedia.org/wiki/Mobile_web) access, [IP telephony](http://en.wikipedia.org/wiki/IP_telephony), gaming services, [high-definition](http://en.wikipedia.org/wiki/HDTV) [mobile TV](http://en.wikipedia.org/wiki/Mobile_TV), video conferencing and [3D television](http://en.wikipedia.org/wiki/3D_television).

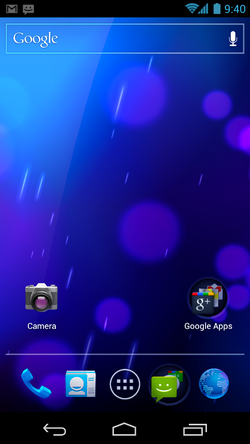
Two 4G candidate systems are commercially deployed: The [Mobile WiMAX](http://en.wikipedia.org/wiki/Mobile_WiMAX) standard (at first in South Korea in 2006), and the first-release [Long term evolution](http://en.wikipedia.org/wiki/Long_term_evolution) (LTE) standard (in Scandinavia since 2009). It has however been debated if these first-release versions should be considered as 4G or not. USB wireless modems have been available since the start, while WiMAX smartphones have been available since 2010, and LTE smartphones since 2011. Equipment made for different continents are not always compatible, because of different frequency bands. Mobile WiMAX and LTE smartphones are currently (April 2012) not available for the European market.

## 

## Smartphones

A **smartphone** is a [mobile phone](http://en.wikipedia.org/wiki/Mobile_phone) built on a [mobile computing](http://en.wikipedia.org/wiki/Mobile_operating_system) platform, with more advanced computing ability and connectivity than a [feature phone](http://en.wikipedia.org/wiki/Feature_phone).[[1]](http://en.wikipedia.org/wiki/Smartphones#cite_note-phonescoop-smartphone-0)[[2]](http://en.wikipedia.org/wiki/Smartphones#cite_note-phonescoop-featurephone-1)[[3]](http://en.wikipedia.org/wiki/Smartphones#cite_note-2) The first smartphones mainly combined the functions of a [personal digital assistant](http://en.wikipedia.org/wiki/Personal_digital_assistant) (PDA) and a mobile phone or [camera phone](http://en.wikipedia.org/wiki/Camera_phone). Today's models also serve to combine the functions of [portable media players](http://en.wikipedia.org/wiki/Portable_media_player), low-end [compact](http://en.wikipedia.org/wiki/Compact_camera) [digital cameras](http://en.wikipedia.org/wiki/Digital_cameras), [pocket video cameras](http://en.wikipedia.org/wiki/Pocket_video_camera), and [GPS](http://en.wikipedia.org/wiki/GPS) navigation units. Modern smartphones typically also include high-resolution [touchscreens](http://en.wikipedia.org/wiki/Touchscreen), [web browsers](http://en.wikipedia.org/wiki/Web_browser) that can access and properly display standard web pages rather than just mobile-optimized sites, and high-speed data access via [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi) and [mobile broadband](http://en.wikipedia.org/wiki/Mobile_broadband). The most common [mobile operating systems](http://en.wikipedia.org/wiki/Mobile_operating_system) (OS) used by modern smartphones include [Google](http://en.wikipedia.org/wiki/Google)'s [Android](http://en.wikipedia.org/wiki/Android_(operating_system)), [Apple's](http://en.wikipedia.org/wiki/Apple_Inc.) [iOS](http://en.wikipedia.org/wiki/IOS), [Nokia](http://en.wikipedia.org/wiki/Nokia)'s [Symbian](http://en.wikipedia.org/wiki/Symbian), [RIM's](http://en.wikipedia.org/wiki/Research_In_Motion) [BlackBerry OS](http://en.wikipedia.org/wiki/BlackBerry_OS), [Samsung](http://en.wikipedia.org/wiki/Samsung)'s [Bada](http://en.wikipedia.org/wiki/Bada), [Microsoft](http://en.wikipedia.org/wiki/Microsoft)'s [Windows Phone](http://en.wikipedia.org/wiki/Windows_Phone), [HP](http://en.wikipedia.org/wiki/HP)'s [webOS](http://en.wikipedia.org/wiki/WebOS), and [embedded Linux](http://en.wikipedia.org/wiki/Embedded_Linux) distributions such as [Maemo](http://en.wikipedia.org/wiki/Maemo) and [MeeGo](http://en.wikipedia.org/wiki/MeeGo). Such operating systems can be installed on many different phone models, and typically each device can receive multiple OS software updates over its lifetime. The distinction between smartphones and feature phones can be vague and there is no official definition for what constitutes the difference between them. One of the most significant differences is that the advanced [application programming interfaces](http://en.wikipedia.org/wiki/Application_programming_interface) (APIs) on smartphones for running third-party applications[[4]](http://en.wikipedia.org/wiki/Smartphones#cite_note-PCmag-3) can allow those applications to have better integration with the phone's OS and hardware than is typical with feature phones. In comparison, feature phones more commonly run on proprietary[firmware](http://en.wikipedia.org/wiki/Firmware), with third-party software support through platforms such as [Java ME](http://en.wikipedia.org/wiki/Java_ME) or [BREW](http://en.wikipedia.org/wiki/Binary_Runtime_Environment_for_Wireless).[[1]](http://en.wikipedia.org/wiki/Smartphones#cite_note-phonescoop-smartphone-0) An additional complication in distinguishing between smartphones and feature phones is that over time the capabilities of new models of feature phones can increase to exceed those of phones that had been promoted as smartphones in the past.

Some manufacturers use the term "superphone" for their high end phones with unusually large screens and other expensive features.[[5]](http://en.wikipedia.org/wiki/Smartphones#cite_note-4)[[6]](http://en.wikipedia.org/wiki/Smartphones#cite_note-5) Other commentators prefer "phablet" in recognition of their convergence with low-end [tablet computers](http://en.wikipedia.org/wiki/Tablet_computer).[[7]](http://en.wikipedia.org/wiki/Smartphones#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Smartphones#cite_note-7)

* ******Android is a [Linux](http://en.wikipedia.org/wiki/Linux)-based [operating system for mobile devices](http://en.wikipedia.org/wiki/Mobile_operating_system) such as [smartphones](http://en.wikipedia.org/wiki/Smartphone) and [tablet computers](http://en.wikipedia.org/wiki/Tablet_computer). It is developed by the [Open Handset Alliance](http://en.wikipedia.org/wiki/Open_Handset_Alliance), led by [Google](http://en.wikipedia.org/wiki/Google), and other companies.[[2]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-philosophy-1)

Google purchased the initial developer of the software, Android Inc., in 2005.[[7]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-AndroidInc-6) The unveiling of the Android distribution in 2007 was announced with the founding of the Open Handset Alliance, a consortium of 86 [hardware](http://en.wikipedia.org/wiki/Computer_hardware), software, and [telecommunication](http://en.wikipedia.org/wiki/Telecommunication) companies devoted to advancing [open standards](http://en.wikipedia.org/wiki/Open_standard) for mobile devices.[[8]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-AndroidAnnouncement-7) Google releases the Android code as [open-source](http://en.wikipedia.org/wiki/Open-source), under the [Apache License](http://en.wikipedia.org/wiki/Apache_License).[[9]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-AndroidOverview-8) The [Android Open Source Project](http://en.wikipedia.org/wiki/Android_Open_Source_Project) (AOSP) is tasked with the maintenance and further development of Android.[[10]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-source.android.com-9)

Android has a large community of developers writing applications ("[apps](http://en.wikipedia.org/wiki/Mobile_apps)") that extend the functionality of the devices. Developers write primarily in a customized version of [Java](http://en.wikipedia.org/wiki/Java_(programming_language)).[[11]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-10) Apps can be downloaded from third-party sites or through online stores such as [Google Play](http://en.wikipedia.org/wiki/Google_Play) (formerly *Android Market*), the app store run by Google. In October 2011, there were more than 500,000 apps available for Android,[[12]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-appstats-500k-11) and the estimated number of applications downloaded from the Android Market as of December 2011 exceeded 10 billion.[[13]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-wired10billion-12)

Android became the world’s leading smartphone platform at the end of 2010.[[14]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-canalysQ42010-13) For the first quarter of 2012, Android had a 59% smartphone market share worldwide, with a 331 million devices installed base and 85 millions activations or 934,000 per day.[[15]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-2012-05-16-snstelecom-14) Analysts points to the advantage for Android to be a multi-channel, multi-carrier OS.[[16]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-15)

Current features and specifications:[[47]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-WhatIsAndroid-46)[[48]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-EnSDK-47)[[49]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-mediaformats-48)

**Handset layouts**

The platform is adaptable to larger, [VGA](http://en.wikipedia.org/wiki/Video_Graphics_Array), [2D graphics](http://en.wikipedia.org/wiki/2D_computer_graphics) library, [3D graphics](http://en.wikipedia.org/wiki/3D_computer_graphics) library based on [OpenGL ES](http://en.wikipedia.org/wiki/OpenGL_ES) 2.0 specifications, and traditional smartphone layouts.

**Storage**

[SQLite](http://en.wikipedia.org/wiki/SQLite), a lightweight [relational database](http://en.wikipedia.org/wiki/Relational_database), is used for [data](http://en.wikipedia.org/wiki/Data) storage purposes.

**Connectivity**

Android supports connectivity technologies including [GSM](http://en.wikipedia.org/wiki/GSM)/[EDGE](http://en.wikipedia.org/wiki/Enhanced_Data_Rates_for_GSM_Evolution), [IDEN](http://en.wikipedia.org/wiki/Integrated_Digital_Enhanced_Network), [CDMA](http://en.wikipedia.org/wiki/Code_division_multiple_access), [EV-DO](http://en.wikipedia.org/wiki/Evolution-Data_Optimized), [UMTS](http://en.wikipedia.org/wiki/Universal_Mobile_Telecommunications_System), [Bluetooth](http://en.wikipedia.org/wiki/Bluetooth), [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi), [LTE](http://en.wikipedia.org/wiki/LTE_Advanced), [NFC](http://en.wikipedia.org/wiki/Near_field_communication) and [WiMAX](http://en.wikipedia.org/wiki/WiMAX).

**Messaging**

[SMS](http://en.wikipedia.org/wiki/SMS) and [MMS](http://en.wikipedia.org/wiki/Multimedia_Messaging_Service) are available forms of messaging, including threaded [text messaging](http://en.wikipedia.org/wiki/Text_messaging) and now [Android Cloud To Device Messaging](http://en.wikipedia.org/wiki/Android_Cloud_To_Device_Messaging) (C2DM) is also a part of Android Push Messaging service.

**Multiple language support**

Android supports multiple languages.[[50]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-gingerbread-highlights-49)

**Web browser**

The web browser available in Android is based on the open-source [WebKit](http://en.wikipedia.org/wiki/WebKit) layout engine, coupled with [Chrome](http://en.wikipedia.org/wiki/Google_Chrome)'s [V8 JavaScript engine](http://en.wikipedia.org/wiki/V8_JavaScript_engine). The browser scores 100/100 on the [Acid3](http://en.wikipedia.org/wiki/Acid3#Mobile_browsers) test on Android 4.0.

**Java support**

While most Android applications are written in [Java](http://en.wikipedia.org/wiki/Java_(programming_language)), there is no [Java Virtual Machine](http://en.wikipedia.org/wiki/Java_Virtual_Machine) in the platform and Java byte code is not executed. Java classes are compiled into Dalvik executables and run on [Dalvik](http://en.wikipedia.org/wiki/Dalvik_virtual_machine), a specialized virtual machine designed specifically for Android and optimized for battery-powered mobile devices with limited memory and CPU. [J2ME](http://en.wikipedia.org/wiki/J2ME) support can be provided via third-party applications.

**Media support**

Android supports the following audio/video/still media formats: [WebM](http://en.wikipedia.org/wiki/WebM), [H.263](http://en.wikipedia.org/wiki/H.263), [H.264](http://en.wikipedia.org/wiki/H.264) (in [3GP](http://en.wikipedia.org/wiki/3GP) or [MP4](http://en.wikipedia.org/wiki/MP4) [container](http://en.wikipedia.org/wiki/Container_format_(digital))), [MPEG-4 SP](http://en.wikipedia.org/wiki/MPEG-4_Part_2), [AMR](http://en.wikipedia.org/wiki/Adaptive_multi-rate_compression), [AMR-WB](http://en.wikipedia.org/wiki/AMR-WB) (in 3GP container), [AAC](http://en.wikipedia.org/wiki/Advanced_Audio_Coding), [HE-AAC](http://en.wikipedia.org/wiki/HE-AAC) (in MP4 or 3GP container), [MP3](http://en.wikipedia.org/wiki/MP3), [MIDI](http://en.wikipedia.org/wiki/Musical_Instrument_Digital_Interface), [Ogg Vorbis](http://en.wikipedia.org/wiki/Vorbis), [FLAC](http://en.wikipedia.org/wiki/Free_Lossless_Audio_Codec), [WAV](http://en.wikipedia.org/wiki/WAV), [JPEG](http://en.wikipedia.org/wiki/JPEG), [PNG](http://en.wikipedia.org/wiki/Portable_Network_Graphics), [GIF](http://en.wikipedia.org/wiki/Graphics_Interchange_Format), [BMP](http://en.wikipedia.org/wiki/BMP_file_format), [WebP](http://en.wikipedia.org/wiki/WebP).[[49]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-mediaformats-48)

**Streaming media support**

RTP/RTSP streaming ([3GPP PSS](http://en.wikipedia.org/w/index.php?title=3GPP_PSS&action=edit&redlink=1), [ISMA](http://en.wikipedia.org/wiki/Internet_Streaming_Media_Alliance)), HTML progressive download ([HTML5 <video> tag](http://en.wikipedia.org/wiki/HTML5_video)). Adobe Flash Streaming (RTMP) and HTTP Dynamic Streaming are supported by the [Flash plugin](http://en.wikipedia.org/wiki/Adobe_Flash_Player#Mobile_platforms).[[51]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-50)Apple HTTP Live Streaming is supported by [RealPlayer for Android](http://en.wikipedia.org/wiki/RealPlayer_for_Android),[[52]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-51) and by the operating system in Android 3.0 (Honeycomb).[[53]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-honeycomb-highlights-52)

**Additional hardware support**

Android can use video/still cameras, [touchscreens](http://en.wikipedia.org/wiki/Touchscreen), [GPS](http://en.wikipedia.org/wiki/Global_Positioning_System), [accelerometers](http://en.wikipedia.org/wiki/Accelerometer), [gyroscopes](http://en.wikipedia.org/wiki/Gyroscope), [barometers](http://en.wikipedia.org/wiki/Barometer), [magnetometers](http://en.wikipedia.org/wiki/Magnetometer), dedicated gaming controls, [proximity](http://en.wikipedia.org/wiki/Proximity_sensor) and [pressure sensors](http://en.wikipedia.org/wiki/Pressure_sensor), [thermometers](http://en.wikipedia.org/wiki/Thermometer), accelerated 2D [bit blits](http://en.wikipedia.org/wiki/Bit_blit) (with hardware orientation, scaling, pixel format conversion) and accelerated 3D graphics.

**Multi-touch**

Android has native support for [multi-touch](http://en.wikipedia.org/wiki/Multi-touch) which was initially made available in handsets such as the [HTC Hero](http://en.wikipedia.org/wiki/HTC_Hero). The feature was originally disabled at the kernel level (possibly to avoid infringing Apple's patents on touch-screen technology at the time).[[54]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-53) Google has since released an update for the [Nexus One](http://en.wikipedia.org/wiki/Nexus_One) and the [Motorola Droid](http://en.wikipedia.org/wiki/Motorola_Droid) which enables multi-touch natively.[[55]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-54)

**Bluetooth**

Supports [A2DP](http://en.wikipedia.org/wiki/A2DP), [AVRCP](http://en.wikipedia.org/wiki/AVRCP), sending files ([OPP](http://en.wikipedia.org/wiki/Object_Push_Profile)), accessing the phone book ([PBAP](http://en.wikipedia.org/wiki/Bluetooth_profile#Phone_Book_Access_Profile_.28PBAP.2C_PBA.29)), voice dialing and sending contacts between phones. Keyboard, mouse and joystick ([HID](http://en.wikipedia.org/wiki/Bluetooth_profile#Human_Interface_Device_Profile_.28HID.29)) support is available in Android 3.1+, and in earlier versions through manufacturer customizations and third-party applications.[[56]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-55)

**Video calling**

Android does not support native video calling, but some handsets have a customized version of the operating system that supports it, either via the [UMTS](http://en.wikipedia.org/wiki/UMTS) network (like the [Samsung Galaxy S](http://en.wikipedia.org/wiki/Samsung_Galaxy_S)) or over IP. Video calling through Google Talk is available in Android 2.3.4 and later. Gingerbread allows [Nexus S](http://en.wikipedia.org/wiki/Nexus_S) to place Internet calls with a SIP account. This allows for enhanced VoIP dialing to other SIP accounts and even phone numbers. Skype 2.1 offers video calling in Android 2.3, including front camera support.

**Multitasking**

Multitasking of applications, with unique handling of memory allocation, is available.[[57]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-56)

**Voice based features**

Google search through voice has been available since initial release.[[58]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-57) Voice actions for calling, texting, navigation, etc. are supported on Android 2.2 onwards.[[59]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-58)

**Tethering**

Android supports [tethering](http://en.wikipedia.org/wiki/Tethering), which allows a phone to be used as a wireless/wired [Wi-Fi hotspot](http://en.wikipedia.org/wiki/Wi-Fi_hotspot). Before Android 2.2 this was supported by third-party applications or manufacturer customizations.[[60]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-59)

**Screen capture**

Android supports capturing a [screenshot](http://en.wikipedia.org/wiki/Screenshot) by pressing the power and volume-down buttons at the same time.[[61]](http://en.wikipedia.org/wiki/Android_(operating_system)#cite_note-60) Prior to Android 4.0, the only methods of capturing a screenshot were through manufacturer and third-party customizations or otherwise by using a PC connection (DDMS developer's tool). These alternative methods are still available with the latest Android.

**External storage**

Most Android devices include microSD slot and can read microSD cards formatted with [FAT32](http://en.wikipedia.org/wiki/FAT32), [Ext3](http://en.wikipedia.org/wiki/Ext3) or [Ext4](http://en.wikipedia.org/wiki/Ext4) file system. To allow use of high-capacity storage media such as [USB flash drives](http://en.wikipedia.org/wiki/USB_flash_drive) and[USB HDDs](http://en.wikipedia.org/wiki/USB_HDD), many Android tablets also include [USB](http://en.wikipedia.org/wiki/USB) 'A' receptacle. Storage formatted with [FAT32](http://en.wikipedia.org/wiki/FAT32) is handled by [Linux Kernel](http://en.wikipedia.org/wiki/Linux_Kernel) VFAT driver, while 3rd party solutions are required to handle other popular file systems such as [NTFS](http://en.wikipedia.org/wiki/NTFS), [HFS Plus](http://en.wikipedia.org/wiki/HFS%2B) and [exFAT](http://en.wikipedia.org/wiki/ExFAT).

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* iOS (originally **iPhone OS**) is a [mobile operating system](http://en.wikipedia.org/wiki/Mobile_operating_system) developed and distributed by [Apple Inc.](http://en.wikipedia.org/wiki/Apple_Inc.)

Originally released in 2007 for the [iPhone](http://en.wikipedia.org/wiki/IPhone) and [iPod Touch](http://en.wikipedia.org/wiki/IPod_Touch), it has been extended to support other Apple devices such as the [iPad](http://en.wikipedia.org/wiki/IPad) and [Apple TV](http://en.wikipedia.org/wiki/Apple_TV). Unlike [Windows CE](http://en.wikipedia.org/wiki/Windows_CE) ([Mobile](http://en.wikipedia.org/wiki/Windows_Mobile) and [Phone](http://en.wikipedia.org/wiki/Windows_Phone)) and [Android](http://en.wikipedia.org/wiki/Android_(operating_system)), Apple does not license iOS for installation on non-Apple hardware. As of June 12, 2012, Apple's [App Store](http://en.wikipedia.org/wiki/App_Store_(iOS)) contained more than 650,000 iOS applications, which have collectively been downloaded more than 30 billion times.[[3]](http://en.wikipedia.org/wiki/IOS#cite_note-WWDC_2012_Keynote-2) It had a 16% share of the [smartphone](http://en.wikipedia.org/wiki/Smartphone) operating system units sold in the last quarter of 2010, behind both [Google](http://en.wikipedia.org/wiki/Google)'s [Android](http://en.wikipedia.org/wiki/Android_(operating_system)) and [Nokia](http://en.wikipedia.org/wiki/Nokia)'s [Symbian](http://en.wikipedia.org/wiki/Symbian).[[4]](http://en.wikipedia.org/wiki/IOS#cite_note-3)[[*dated info*](http://en.wikipedia.org/wiki/Wikipedia:Manual_of_Style/Dates_and_numbers#Precise_language)] In May 2010, in the United States, it accounted for 59% of mobile web data consumption (including use on both the [iPod Touch](http://en.wikipedia.org/wiki/IPod_Touch) and the [iPad](http://en.wikipedia.org/wiki/IPad)).[[5]](http://en.wikipedia.org/wiki/IOS#cite_note-4)[[*dated info*](http://en.wikipedia.org/wiki/Wikipedia:Manual_of_Style/Dates_and_numbers#Precise_language)]

The [user interface](http://en.wikipedia.org/wiki/User_interface) of iOS is based on the concept of [direct manipulation](http://en.wikipedia.org/wiki/Direct_manipulation), using [multi-touch gestures](http://en.wikipedia.org/wiki/Multi-touch_gestures). Interface control elements consist of sliders, switches, and buttons. The response to user input is immediate and provides a fluid interface. Interaction with the OS includes gestures such as *swipe*, *tap*, *pinch*, and*reverse pinch*, all of which have specific definitions within the context of the iOS operating system and its multi-touch interface. Internal [accelerometers](http://en.wikipedia.org/wiki/Accelerometer) are used by some applications to respond to shaking the device (one common result is the undo command) or rotating it in three dimensions (one common result is switching from portrait to landscape mode).

iOS is derived from [OS X](http://en.wikipedia.org/wiki/OS_X), with which it shares the [Darwin](http://en.wikipedia.org/wiki/Darwin_(operating_system)) foundation, and is therefore a [Unix](http://en.wikipedia.org/wiki/Unix) operating system.

******In iOS, there are four [abstraction layers](http://en.wikipedia.org/wiki/Abstraction_layer): the Core OS layer, the [Core Services](http://en.wikipedia.org/wiki/Core_Services) layer, the Media layer, and the [Cocoa Touch](http://en.wikipedia.org/wiki/Cocoa_Touch) layer.

* Symbian is a [mobile operating system](http://en.wikipedia.org/wiki/Mobile_operating_system) (OS) and [computing platform](http://en.wikipedia.org/wiki/Computing_platform) designed for [smartphones](http://en.wikipedia.org/wiki/Smartphone) and currently maintained by [Accenture](http://en.wikipedia.org/wiki/Accenture).[[7]](http://en.wikipedia.org/wiki/Symbian#cite_note-mca-6) The Symbian platform is the successor to [Symbian OS](http://en.wikipedia.org/wiki/History_of_Symbian) and Nokia [Series 60](http://en.wikipedia.org/wiki/S60_(software_platform)); unlike Symbian OS, which needed an additional [user interface](http://en.wikipedia.org/wiki/User_interface) system, Symbian includes a user interface component based on S60 5th Edition.

*Symbian OS* was originally developed by [Symbian Ltd.](http://en.wikipedia.org/wiki/Symbian_Ltd.)[[10]](http://en.wikipedia.org/wiki/Symbian#cite_note-9) It is a descendant of [Psion](http://en.wikipedia.org/wiki/Psion)'s EPOC and runs exclusively on [ARM](http://en.wikipedia.org/wiki/ARM_architecture) [processors](http://en.wikipedia.org/wiki/Central_processing_unit), although an unreleased [x86](http://en.wikipedia.org/wiki/X86) port existed.

On February 11, 2011, Nokia announced that it would migrate from Symbian to [Windows Phone 7](http://en.wikipedia.org/wiki/Windows_Phone_7). Nokia CEO Stephen Elop announced Nokia's first Windows phones at Nokia World 2011: the Lumia 800 and Lumia 710.

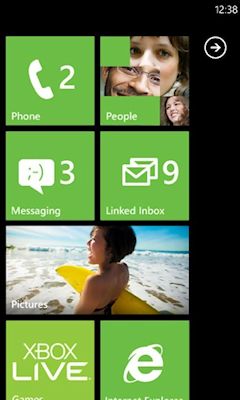
* BlackBerry OS is a proprietary [mobile operating system](http://en.wikipedia.org/wiki/Mobile_operating_system), developed by [Research In Motion](http://en.wikipedia.org/wiki/Research_In_Motion) (RIM) for its [BlackBerry](http://en.wikipedia.org/wiki/BlackBerry) line of [smartphone](http://en.wikipedia.org/wiki/Smartphone) handheld devices. The operating system provides [multitasking](http://en.wikipedia.org/wiki/Computer_multitasking) and supports specialized input devices that have been adopted by RIM for use in its handhelds, particularly the [trackwheel](http://en.wikipedia.org/wiki/Trackwheel), [trackball](http://en.wikipedia.org/wiki/Trackball), and most recently, the [trackpad](http://en.wikipedia.org/wiki/Trackpad) and [touchscreen](http://en.wikipedia.org/wiki/Touchscreen).

The BlackBerry platform is perhaps best known for its native support for corporate email, through [MIDP](http://en.wikipedia.org/wiki/MIDP) 1.0 and, more recently, a subset of MIDP 2.0, which allows complete wireless activation and synchronization with [Microsoft Exchange](http://en.wikipedia.org/wiki/Microsoft_Exchange), [Lotus Domino](http://en.wikipedia.org/wiki/Lotus_Domino), or [Novell GroupWise](http://en.wikipedia.org/wiki/Novell_GroupWise) email, calendar, tasks, notes, and contacts, when used with [BlackBerry Enterprise Server](http://en.wikipedia.org/wiki/BlackBerry_Enterprise_Server). The operating system also supports [WAP](http://en.wikipedia.org/wiki/Wireless_Application_Protocol) 1.2.

Updates to the operating system may be automatically available from wireless carriers that support the BlackBerry over the air software loading (OTASL) service.

* Bada is an [operating system for mobile devices](http://en.wikipedia.org/wiki/Mobile_operating_system) such as [smartphones](http://en.wikipedia.org/wiki/Smartphone) and [tablet computers](http://en.wikipedia.org/wiki/Tablet_computer). It is developed by [Samsung Electronics](http://en.wikipedia.org/wiki/Samsung_Electronics) and it ranges from mid-range to high-end smartphones.[[3]](http://en.wikipedia.org/wiki/Bada#cite_note-badaInfo-2)

To foster adoption of Bada OS, Samsung is reportedly considering releasing the source code under an [open-source](http://en.wikipedia.org/wiki/Open-source) license, and expanding device support to include [Smart TVs](http://en.wikipedia.org/wiki/Smart_TV).[[4]](http://en.wikipedia.org/wiki/Bada#cite_note-3) Samsung has announced it will merge Bada into the [Tizen](http://en.wikipedia.org/wiki/Tizen) project, but it is not confirmed.[[5]](http://en.wikipedia.org/wiki/Bada#cite_note-4)[[6]](http://en.wikipedia.org/wiki/Bada#cite_note-5)

With the release of the Samsung Wave, Samsung opened an international application store, [Samsung Apps](http://en.wikipedia.org/wiki/Samsung_Apps), for the Bada platform.[[15]](http://en.wikipedia.org/wiki/Bada#cite_note-SamsungApps-14) Samsung Apps has over 2400 applications.[[16]](http://en.wikipedia.org/wiki/Bada#cite_note-15)

* Windows Phone is a [mobile operating system](http://en.wikipedia.org/wiki/Mobile_operating_system) developed by [Microsoft](http://en.wikipedia.org/wiki/Microsoft), and is the successor to its [Windows Mobile](http://en.wikipedia.org/wiki/Windows_Mobile) platform,[[1]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-Q.26A-0) although incompatible with it.[[2]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-1) Unlike its predecessor, it is primarily aimed at the consumer market rather than the [enterprise](http://en.wikipedia.org/wiki/Enterprise_software) market.[[3]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-2) It was launched in the second half of 2010, with a release in Asia following in early 2011.[[4]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-3) With Windows Phone, Microsoft created a new user interface, featuring its [design language](http://en.wikipedia.org/wiki/Design_language) called [Metro](http://en.wikipedia.org/wiki/Metro_(design_language)). Additionally, the software is integrated with third party services and Microsoft services, and sets minimum requirements for the hardware on which it runs.[[5]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-4)

***Features***

**User interface**

Windows Phone features a new [user interface](http://en.wikipedia.org/wiki/User_interface), based upon Microsoft's Windows Phone design system, codenamed [Metro](http://en.wikipedia.org/wiki/Metro_Design_Language).[[37]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-36) The home screen, called the "Start screen", is made up of "Live Tiles". Tiles are links to applications, features, functions and individual items (such as contacts, web pages, applications or media items). Users can add, rearrange, or remove Tiles.[[38]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-37) Tiles are dynamic and update in real time – for example, the tile for an email account would display the number of unread messages or a Tile could display a live update of the weather.[[39]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-ReferenceA-38)

Several features of Windows Phone are organized into "**hubs**", which combine local and online content via Windows Phone's integration with popular [social networks](http://en.wikipedia.org/wiki/Social_network_service) such as Facebook, [Windows Live](http://en.wikipedia.org/wiki/Windows_Live), and Twitter.[[39]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-ReferenceA-38)

Windows Phone uses [multi-touch](http://en.wikipedia.org/wiki/Multi-touch) technology.[[39]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-ReferenceA-38) The default Windows Phone user interface has a dark theme that prolongs battery life on [OLED screens](http://en.wikipedia.org/wiki/OLED) as fully black pixels don't emit light.[[40]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-39) The user may choose a light theme instead, and can also choose from several accent colors.[[41]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-40) User interface elements such as tiles are shown in the user's chosen accent color. [Third-party applications](http://en.wikipedia.org/wiki/Third-party_software_component)can be automatically themed with these colors.[[42]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-41)[[43]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-42)

**Text input**

Users input text by using an on-screen [virtual keyboard](http://en.wikipedia.org/wiki/Virtual_keyboard), which has a dedicated key for inserting [emoticons](http://en.wikipedia.org/wiki/Emoticons),[[44]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-windows_phone_preview-43) and features spell checking[[44]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-windows_phone_preview-43) and word prediction.[[45]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-44) App developers (both inhouse and ISV) may specify different versions of the virtual keyboard in order to limit users to certain character sets, such as numeric characters alone. Users may change a word after it has been typed by tapping the word,[[46]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-45) which will invoke a list of similar words. Pressing and holding certain keys will reveal similar characters. The keys are somewhat larger and spaced farther apart when in landscape mode. Phones may also be made with a hardware keyboard for text input.[[47]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-46)

**Messaging**

Windows Phone combined messaging through "threads". Threads allow the Windows Phone user to engage with their contacts through Windows Live Messenger and Facebook Chat as well as traditional text messages. Text message can also be composed through voice recognition. Voice recognition allows speech to be converted to text message and also allows text message to be converted to speech which can be read aloud.

[](http://en.wikipedia.org/wiki/File:Internet_Explorer_Mobile_9.png)**Web browser**

Windows Phone 7.5 features a version of [Internet Explorer Mobile](http://en.wikipedia.org/wiki/Internet_Explorer_Mobile) with a rendering engine that is based on [Internet Explorer 9](http://en.wikipedia.org/wiki/Internet_Explorer_9).[[48]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-redial-47)

Internet Explorer on Windows Phone allows the user to maintain a list of favorite web pages and tiles linking to web pages on the Start screen. The browser supports up to 6 tabs, which can all load in parallel.[[49]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-48) Other features include multi-touch gestures, a streamlined UI, smooth zoom in/out animations, the ability to save pictures that are on web pages, share web pages via email, and support for inline search which allows the user to search for a word or phrase in a web page by typing it.[[50]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-49) Microsoft has announced plans to regularly update the Windows Phone web browser and its layout engine independently from the Windows Phone Update system.[[51]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-50)

In a demo, Microsoft said that users will be able to stream YouTube videos from the browser. Clicking on a video from the mobile YouTube website will launch the video in a standalone app and will also add the YouTube video to the Music + Video Hub.[[52]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-51)

**Contacts**

Contacts are organized via the "**People hub**". Contacts can be manually entered into contacts or imported from Facebook, Windows Live Contacts, Twitter, and LinkedIn. A "What's New" section show news feed and a "Pictures" section show pictures from those social networks made by the contacts. A "Me" section show the phone user's own social networks status and wall, allow the user to update his status, and check-in to Bing and Facebook Places. Contacts can be added to the home screen by pinning them to the start. The contact's "**Live Tile**" displays his social network status and profile picture on the homescreen and the contact's hub displays his Facebook wall as well as all of the rest of his contact information and information from his other social networks.

If a contact has information stored on multiple networks, users can link the two separate contact accounts, allowing the information to be viewed and accessed from a single card.[[53]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-52) As of Windows Phone 7.5, contacts can also be sorted into "Groups". Here, information from each of the contacts is combined into a single page which can be accessed directly from the Hub or pinned to the Start screen.

**Email**

Windows Phone supports [Hotmail](http://en.wikipedia.org/wiki/Hotmail), [Exchange](http://en.wikipedia.org/wiki/Microsoft_Exchange), [Yahoo! Mail](http://en.wikipedia.org/wiki/Yahoo!_Mail), and [Gmail](http://en.wikipedia.org/wiki/Gmail) natively and supports many other services via the [POP](http://en.wikipedia.org/wiki/Post_Office_Protocol) and [IMAP](http://en.wikipedia.org/wiki/Internet_Message_Access_Protocol) protocols. For the native account types, contacts and calendars may be synced as well. Users can also search through their email by searching in the subject, body, senders, and receivers. Emails are shown in threading view and multiple email inboxes can be combined or kept separate.

**Multimedia**

Zune for Windows Phone is a built-in application providing entertainment and synchronization capabilities between PC and Windows Phone.[[54]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-53) The Windows Phone multimedia experience is divided into two distinct hubs, the "Music + Videos" hub and the "Pictures" hub, both of which are similar in appearance and functionality to that of the [Zune HD](http://en.wikipedia.org/wiki/Zune_HD).

The "**Music + Videos hub**" allows the user to access music, videos, and podcasts stored on the device, and links directly to the Windows Phone Marketplace to buy music, or rent it with the [Zune Pass](http://en.wikipedia.org/wiki/Zune_Pass#Zune_Music_Pass) subscription service. When browsing the music by a particular artist, users are able to view artist biographies and photos, provided by the Zune Software.[[44]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-windows_phone_preview-43) This hub integrates with many apps that provide video and music service, including, but not limited to, [iHeartRadio](http://en.wikipedia.org/wiki/IHeartRadio), Youtube, and [Vevo](http://en.wikipedia.org/wiki/Vevo). This hub also includes Smart DJ which compiles a playlist of songs stored on the phone similar to the song or artist selected.

The "**Pictures hub**" displays the user's Facebook and [Windows Live](http://en.wikipedia.org/wiki/Windows_Live) photo albums, as well as photos taken with the phone's built-in camera. Users can also upload photos to social networks, comment on others photos, and tag photos on social networks directly from the Pictures hub.[[44]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-windows_phone_preview-43) Multi-touch gestures permit zooming in and out of photos.

**Media support**

According to Brandon Miniman's test review for pocketnow.com, he stated "*if Zune can play it, your Windows Phone 7 device can play it*" – this refers to the supported playback of files.[[55]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-54) The audio file formats, supported, include WAV, MP3, WMA, AMR, [AAC/MP4/M4A/M4B](http://en.wikipedia.org/wiki/Advanced_Audio_Coding) and [3GP/3G2](http://en.wikipedia.org/wiki/3GP_and_3G2) as standards. The video file formats, supported, include WMV, AVI, MP4/M4V, [3GP/3G2](http://en.wikipedia.org/wiki/3GP_and_3G2) and [MOV (QuickTime)](http://en.wikipedia.org/wiki/.mov) standards. These supported audio and video formats would be dependent on the codecs contained inside them. It has also been previously reported that the [DivX](http://en.wikipedia.org/wiki/DivX) and [Xvid](http://en.wikipedia.org/wiki/Xvid) codecs within AVI are also playable on the system.[[56]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-55)[[57]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-56) Unlike the previous Windows Mobile operating system, there are currently no third-party applications for handling other video formats. The image file formats that are supported include [JPG/JPEG](http://en.wikipedia.org/wiki/JPEG), PNG, GIF, TIF and Bitmap (BMP).[[58]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-57)[[59]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-58)

Custom ringtones were added with Mango. Ringtones must be under 1MB, less than 40 seconds long and the genre marked as Ringtone to appear on the phone, and are either created on the computer or downloaded through apps. Custom ringtones cannot be used for text messages, IMs or emails.

**Games**

Xbox Live on Windows Phone provides some Xbox 360 features on Windows Phone devices by displaying the user's [avatar](http://en.wikipedia.org/wiki/Avatar_(Xbox_360)) in a 3D fashion. Via "**Games hub**", the users are able to interact with the avatar, view gamerscore and leaderboards, message Xbox Live friends, and Spotlight.[[60]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-59) Multiplayer (turn-based) gaming with live multiplayer are also released.[[61]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-60) Microsoft has unveiled more than 50 premium Windows Phone Games titles at [Gamescom](http://en.wikipedia.org/wiki/Gamescom) that makes use of Xbox Live on mobile.[[62]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-61) Xbox Live on Windows Phone currently doesn't offer real-time multiplayer games, but will be added in the future.[[63]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-62) Some key features of Xbox Live on Windows Phone include ability to be signed in simultaneously on the console and phone, send and receive messages between Console and Phone, unlock unique gamer points only available by purchasing the gaming title on the phone, etc.

[](http://en.wikipedia.org/wiki/File:WP7Bing.jpg)**Search**

Microsoft's hardware requirements stipulate that every Windows Phone must have a dedicated Search button on the front of the device that performs different actions.[[39]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-ReferenceA-38)Pressing the search button while an application is open will allow users to search within applications that take advantage of this feature; for example, pressing Search in the People hub will let the users search their contact list for specific people.[[64]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-Slashgear_series-63) This has been changed in Windows Phone 7.5 however – as the search button is reserved for Bing – so applications that previously used this feature (such as the Marketplace) now include soft search buttons.

In other cases, pressing the Search button will allow the user to perform a search of web sites, news, and map locations using the [Bing](http://en.wikipedia.org/wiki/Bing_(search_engine)) application.[[65]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-MaryJo_Will-64)

Windows Phone also has a [voice recognition](http://en.wikipedia.org/wiki/Voice_recognition) function, powered by [TellMe](http://en.wikipedia.org/wiki/Tellme_Networks), which allows the user to perform a Bing search, call contacts or launch applications by speaking. This can be activated by pressing and holding the phone's Start button.

Bing is the default [search engine](http://en.wikipedia.org/wiki/Web_search_engine) on Windows Phone handsets due to its deep integration of functions into the OS (which also include the utilization of its [map service](http://en.wikipedia.org/wiki/Bing_Maps) for location-based searches and queries). However, Microsoft has stated that other search engine applications can be used.[[65]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-MaryJo_Will-64)[[66][66]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-Lint_default-65)

Aside from location-based searches, Bing Maps also provide [turn-by-turn navigation](http://en.wikipedia.org/wiki/Turn-by-turn_navigation) service to Windows Phone user and Local Scout shows interest points such as attractions and restaurants in the nearby area.

Bing Audio allows the user to match a song with its name and Bing Vision allows the user to match barcodes and tags with the product online.

**Office suite**

The "**Office hub**" organizes all Microsoft Office apps and documents. Microsoft Office Mobile provides interoperability between Windows Phone and the desktop version of [Microsoft Office](http://en.wikipedia.org/wiki/Microsoft_Office). Word Mobile, Excel Mobile, PowerPoint Mobile, [OneNote](http://en.wikipedia.org/wiki/OneNote) Mobile, and SharePoint Workspace Mobile allow most Microsoft Office file formats to be viewed and edited directly on a Windows Phone device.

Microsoft Office files from SkyDrive and Office 365, as well as files stored locally on the phone, can be accessed through the Office Hub. Office files are sorted by tiles: Word documents (blue tile), Excel spreadsheets (green tile), PowerPoint presentations (red tile), and OneNote documents (purple tile).

**Multitasking**

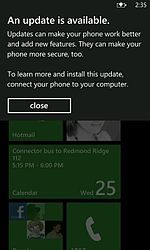
In Windows Phone 7, multitasking is limited to bundled apps. Starting with Windows Phone 7.5, a card-based task switcher can be accessed by pressing and holding the back button. The screenshot of last five open app are shown as cards. Apps can be kept running even when out of view through "Live Agents".[[67]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-66) In other cases, apps are suspended and can be quickly resumed.

**Sync**

Zune Software manages the contents on Windows Phone devices and Windows Phone can wirelessly sync with Zune Software. In addition to accessing on the Windows Phone devices, Zune software can also access the Zune Marketplace to purchase music, videos, and all apps for Windows Phone. While music and videos are both stored locally on the PC and on the phone, apps are only stored on the phone even if purchased from the Zune Software. Zune Software can also be used to update all Windows Phone devices. Although Zune Software is unavailable on [Mac OS X](http://en.wikipedia.org/wiki/Mac_OS_X) operating system, Microsoft has released Windows Phone Connector which allow Windows Phone devices to sync with iTunes for Mac and iPhoto.[[68]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-67)[[69]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-68)[[70]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-69)

Windows Phone OS doesn't support usual [USB](http://en.wikipedia.org/wiki/USB) sync with [Microsoft Outlook](http://en.wikipedia.org/wiki/Microsoft_Outlook)'s Contacts, Tasks and Notes as opposed to older versions of [Windows Mobile](http://en.wikipedia.org/wiki/Windows_Mobile) with Desktop [ActiveSync](http://en.wikipedia.org/wiki/ActiveSync).[[71]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-70)[[72]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-71) Syncing Contacts and Appointments is done via a [cloud](http://en.wikipedia.org/wiki/Cloud_computing)-based service ([Windows Live](http://en.wikipedia.org/wiki/Windows_Live), [Google](http://en.wikipedia.org/wiki/Google), or [Exchange Server](http://en.wikipedia.org/wiki/Exchange_Server)) only. There's no way to sync this personal information directly from a computer to a Windows Phone and back.[[73]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-72) A petition to Microsoft was filed to reinstate USB sync for Outlook.[[74]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-73)

**Updates**

[](http://en.wikipedia.org/wiki/File:WinPhoneUpdate.jpg)A test notification of an "update available" pop-up in the Windows Phone emulator.

According to Microsoft documentation, software updates will be delivered to Windows Phone users via Microsoft Update, as is the case with other Windows operating systems.[[75]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-74) Microsoft had the intention to directly update any phone running Windows Phone instead of relying on [OEMs](http://en.wikipedia.org/wiki/OEM) or [wireless carriers](http://en.wikipedia.org/wiki/Wireless_carrier),[[76]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-75) but on January 6, 2012, Microsoft changed their policy to let carriers decide if an update will be delivered.[[77]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-76) The software component, called Windows Phone Update, exists both on the phone (for smaller updates, over-the-air) and in the Zune Software for Windows PCs (for larger updates, via [USB](http://en.wikipedia.org/wiki/USB) connection). Users will be notified to attach their phones to a PC if such an update is required.[[78]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-77) Microsoft has said that in the future, all updates, both large and small will eventually support over-the-air downloads.[[79]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-78)

All third-party applications can be updated automatically from the [Windows Phone Marketplace](http://en.wikipedia.org/wiki/Windows_Phone_Marketplace).[[82]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-81)

**Advertising platform**

Microsoft has also launched an advertising platform for the Windows Phone platform. Microsoft's General Manager for Strategy and Business Development, Kostas Mallios, said that Windows Phone will be an "ad-serving machine", pushing advertising and brand-related content to the user. The platform will feature advertising tiles near applications and [toast notifications](http://en.wikipedia.org/wiki/Toast_(computing)), which will bring updating advertising notifications. Mallios said that Windows Phone will be able to "preserve the brand experience by going directly from the web site right to the application", and that Windows Phone "enables advertisers to connect with consumers over time".[[83]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-Newsfactor_Ads-82) Mallios continued: "you're now able to push information as an advertiser, and stay in touch with your customer. It's a dynamic relationship that is created and provides for an ongoing dialog with the consumer."[[84]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-Informationweek_Ads-83)

**Bluetooth**

Windows Phone supports the following [Bluetooth profiles](http://en.wikipedia.org/wiki/Bluetooth_profile):[[85]](http://en.wikipedia.org/wiki/Windows_Phone#cite_note-84)

1. Advanced Audio Distribution Profile (A2DP 1.2)
2. Audio/Video Remote Control Profile (AVRCP 1.3)
3. Hands Free Profile (HFP 1.5)
4. Headset Profile (HSP 1.1)
5. Phone Book Access Profile (PBAP 1.1)

* HP webOS is a [mobile operating system](http://en.wikipedia.org/wiki/Mobile_operating_system) based on a [Linux kernel](http://en.wikipedia.org/wiki/Linux_kernel), initially developed by [Palm](http://en.wikipedia.org/wiki/Palm,_Inc.), which

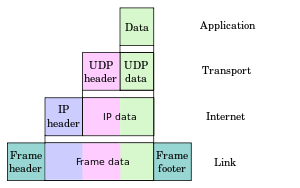
was later acquired by [Hewlett-Packard](http://en.wikipedia.org/wiki/Hewlett-Packard).[[2]](http://en.wikipedia.org/wiki/WebOS#cite_note-1) The official name is *webOS*, uncapitalised,[[3]](http://en.wikipedia.org/wiki/WebOS#cite_note-2) but *WebOS* is also used.

WebOS was introduced by Palm in January 2009. Various versions of webOS have been featured on several devices, including [Pre](http://en.wikipedia.org/wiki/Palm_Pre), [Pixi](http://en.wikipedia.org/wiki/Palm_Pixi), and [Veer](http://en.wikipedia.org/wiki/HP_Veer) phones and the [HP TouchPad](http://en.wikipedia.org/wiki/HP_TouchPad) tablet.

* Embedded Linux is the use of [Linux](http://en.wikipedia.org/wiki/Linux) in [embedded computer](http://en.wikipedia.org/wiki/Embedded_computer) systems such as [mobile phones](http://en.wikipedia.org/wiki/Mobile_phone),

[personal digital assistants](http://en.wikipedia.org/wiki/Personal_digital_assistant), [media players](http://en.wikipedia.org/wiki/Home_theater_PC), [set-top boxes](http://en.wikipedia.org/wiki/Set-top_boxes), and other [consumer electronics](http://en.wikipedia.org/wiki/Consumer_electronic) devices, [networking](http://en.wikipedia.org/wiki/Computer_network) equipment, machine control, [industrial automation](http://en.wikipedia.org/wiki/Industrial_automation), navigation equipment and medical instruments.

# VI Internet

[](http://en.wikipedia.org/wiki/File:UDP_encapsulation.svg)The **Internet** is a global system of interconnected [computer networks](http://en.wikipedia.org/wiki/Computer_network) that use the standard [Internet protocol suite](http://en.wikipedia.org/wiki/Internet_protocol_suite) (often called TCP/IP, although not all applications use TCP) to serve billions of users worldwide. It is a *network of networks* that consists of millions of private, public, academic, business, and government networks, of local to global scope, that are linked by a broad array of electronic, wireless and optical networking technologies.

The Internet carries an extensive range of information resources and services, such as the inter-linked [hypertext](http://en.wikipedia.org/wiki/Hypertext) documents of the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) (WWW) and the [infrastructure](http://en.wikipedia.org/wiki/Information_infrastructure) to support email.

Most traditional communications media including telephone, music, film, and television are reshaped or redefined by the Internet, giving birth to new services such as [Voice over Internet Protocol](http://en.wikipedia.org/wiki/Voice_over_Internet_Protocol) (VoIP) and [Internet Protocol Television](http://en.wikipedia.org/wiki/Internet_Protocol_Television) (IPTV). Newspaper, book and other print publishing are adapting to [Web site](http://en.wikipedia.org/wiki/Web_site) technology, or are reshaped into [blogging](http://en.wikipedia.org/wiki/Blogging) and [web feeds](http://en.wikipedia.org/wiki/Web_feed). The Internet has enabled and accelerated new forms of human interactions through [instant messaging](http://en.wikipedia.org/wiki/Instant_messaging), Internet forums, and [social networking](http://en.wikipedia.org/wiki/Social_network_service). [Online shopping](http://en.wikipedia.org/wiki/Online_shopping) has boomed both for major retail outlets and small [artisans](http://en.wikipedia.org/wiki/Artisan) and traders. [Business-to-business](http://en.wikipedia.org/wiki/Business-to-business) and [financial services](http://en.wikipedia.org/wiki/Financial_services) on the Internet affect [supply chains](http://en.wikipedia.org/wiki/Supply_chain) across entire industries.

The Internet has no centralized governance in either technological implementation or policies for access and usage; each constituent network sets its own standards. Only the overreaching definitions of the two principal [name spaces](http://en.wikipedia.org/wiki/Name_space) in the Internet, the [Internet Protocol address](http://en.wikipedia.org/wiki/IP_address) space and the [Domain Name System](http://en.wikipedia.org/wiki/Domain_Name_System), are directed by a maintainer organization, the [Internet Corporation for Assigned Names and Numbers](http://en.wikipedia.org/wiki/Internet_Corporation_for_Assigned_Names_and_Numbers) (ICANN). The technical underpinning and standardization of the core protocols ([IPv4](http://en.wikipedia.org/wiki/IPv4) and [IPv6](http://en.wikipedia.org/wiki/IPv6)) is an activity of the [Internet Engineering Task Force](http://en.wikipedia.org/wiki/Internet_Engineering_Task_Force) (IETF), a non-profit organization of loosely affiliated international participants that anyone may associate with by contributing technical expertise.

***Technology***

**Protocols**

As the user data is processed down through the protocol stack, each layer adds an encapsulation at the sending host. Data is transmitted "over the wire" at the link level, left to right. The encapsulation stack procedure is reversed by the receiving host. Intermediate relays remove and add a new link encapsulation for retransmission, and inspect the IP layer for routing purposes.

The communications infrastructure of the Internet consists of its hardware components and a system of software layers that control various aspects of the architecture. While the hardware can often be used to support other software systems, it is the design and the rigorous standardization process of the software architecture that characterizes the Internet and provides the foundation for its scalability and success. The responsibility for the architectural design of the Internet software systems has been delegated to the [Internet Engineering Task Force](http://en.wikipedia.org/wiki/Internet_Engineering_Task_Force)(IETF).[[27]](http://en.wikipedia.org/wiki/Internet#cite_note-26) The IETF conducts standard-setting work groups, open to any individual, about the various aspects of Internet architecture. Resulting discussions and final standards are published in a series of publications, each called a [Request for Comments](http://en.wikipedia.org/wiki/Request_for_Comments) (RFC), freely available on the IETF web site. The principal methods of networking that enable the Internet are contained in specially designated RFCs that constitute the [Internet Standards](http://en.wikipedia.org/wiki/Internet_Standard). Other less rigorous documents are simply informative, experimental, or historical, or document the best current practices (BCP) when implementing Internet technologies.

The Internet standards describe a framework known as the [Internet protocol suite](http://en.wikipedia.org/wiki/Internet_protocol_suite). This is a model architecture that divides methods into a layered system of protocols ([RFC 1122](http://tools.ietf.org/html/rfc1122), [RFC 1123](http://tools.ietf.org/html/rfc1123)). The layers correspond to the environment or scope in which their services operate. At the top is the [application layer](http://en.wikipedia.org/wiki/Application_layer), the space for the application-specific networking methods used in software applications, e.g., a web browser program. Below this top layer, the [transport layer](http://en.wikipedia.org/wiki/Transport_layer) connects applications on *different hosts* via the network (e.g., [client–server model](http://en.wikipedia.org/wiki/Client%E2%80%93server_model)) with appropriate data exchange methods. Underlying these layers are the core networking technologies, consisting of two layers. The [internet layer](http://en.wikipedia.org/wiki/Internet_layer)enables computers to identify and locate each other via [Internet Protocol (IP) addresses](http://en.wikipedia.org/wiki/IP_address), and allows them to connect to one-another via intermediate (transit) networks. Last, at the bottom of the architecture, is a software layer, the [link layer](http://en.wikipedia.org/wiki/Link_layer), that provides connectivity between hosts on the same local network link, such as a local area network ([LAN](http://en.wikipedia.org/wiki/LAN)) or a [dial-up connection](http://en.wikipedia.org/wiki/Dial-up_Internet_access). The model, also known as [TCP/IP](http://en.wikipedia.org/wiki/TCP/IP), is designed to be independent of the underlying hardware, which the model therefore does not concern itself with in any detail. Other models have been developed, such as the [Open Systems Interconnection](http://en.wikipedia.org/wiki/Open_Systems_Interconnection) (OSI) model, but they are not compatible in the details of description or implementation; many similarities exist and the TCP/IP protocols are usually included in the discussion of OSI networking.

The most prominent component of the Internet model is the Internet Protocol (IP), which provides addressing systems ([IP addresses](http://en.wikipedia.org/wiki/IP_address)) for computers on the Internet. IP enables internetworking and in essence establishes the Internet itself. IP Version 4 ([IPv4](http://en.wikipedia.org/wiki/IPv4)) is the initial version used on the first generation of today's Internet and is still in dominant use. It was designed to address up to ~4.3 billion (109) Internet hosts. However, the explosive growth of the Internet has led to [IPv4 address exhaustion](http://en.wikipedia.org/wiki/IPv4_address_exhaustion), which entered its final stage in 2011,[[28]](http://en.wikipedia.org/wiki/Internet#cite_note-27) when the global address allocation pool was exhausted. A new protocol version, IPv6, was developed in the mid-1990s, which provides vastly larger addressing capabilities and more efficient routing of Internet traffic. [IPv6](http://en.wikipedia.org/wiki/IPv6) is currently in growing [deployment](http://en.wikipedia.org/wiki/IPv6_deployment) around the world, since Internet address registries ([RIRs](http://en.wikipedia.org/wiki/Regional_Internet_registry)) began to urge all resource managers to plan rapid adoption and conversion.[[29]](http://en.wikipedia.org/wiki/Internet#cite_note-28)

**Routing**

Internet packet routing is accomplished among various tiers of Internet Service Providers.

[Internet Service Providers](http://en.wikipedia.org/wiki/Internet_Service_Provider) (ISP) connect customers (thought of at the "bottom" of the routing hierarchy) to customers of other ISPs. At the "top" of the routing hierarchy are ten or so [Tier 1 networks](http://en.wikipedia.org/wiki/Tier_1_network), large telecommunication companies which exchange traffic directly "across" to all other Tier 1 networks via unpaid [peering](http://en.wikipedia.org/wiki/Peering) agreements. [Tier 2 networks](http://en.wikipedia.org/wiki/Tier_2_network) buy [Internet transit](http://en.wikipedia.org/wiki/Internet_transit) from other ISP to reach at least some parties on the global Internet, though they may also engage in unpaid peering (especially for local partners of a similar size). ISPs can use a single "upstream" provider for connectivity, or use [multihoming](http://en.wikipedia.org/wiki/Multihoming) to provide protection from problems with individual links. [Internet exchange points](http://en.wikipedia.org/wiki/Internet_exchange_point) create physical connections between multiple ISPs, often hosted in buildings owned by independent third parties.

Computers and routers use [routing tables](http://en.wikipedia.org/wiki/Routing_table) to direct IP packets among locally connected machines. Tables can be constructed manually or automatically via [DHCP](http://en.wikipedia.org/wiki/DHCP) for an individual computer or a [routing protocol](http://en.wikipedia.org/wiki/Routing_protocol) for routers themselves. In single-homed situations, a [default route](http://en.wikipedia.org/wiki/Default_route) usually points "up" toward an ISP providing transit. Higher-level ISPs use the [Border Gateway Protocol](http://en.wikipedia.org/wiki/Border_Gateway_Protocol) to sort out paths to any given [range of IP addresses](http://en.wikipedia.org/wiki/Classless_Inter-Domain_Routing) across the complex connections of the global Internet.

Academic institutions, large companies, governments, and other organizations can perform the same role as ISPs, engaging in peering and purchasing transit on behalf of their internal networks of individual computers. Research networks tend to interconnect into large subnetworks such as [GEANT](http://en.wikipedia.org/wiki/GEANT), [GLORIAD](http://en.wikipedia.org/wiki/GLORIAD), [Internet2](http://en.wikipedia.org/wiki/Internet2), and the UK's [national research and education network](http://en.wikipedia.org/wiki/National_research_and_education_network), [JANET](http://en.wikipedia.org/wiki/JANET). These in turn are built around smaller networks (see the list of [academic computer network organizations](http://en.wikipedia.org/wiki/Category:Academic_computer_network_organizations)).

Not all [computer networks](http://en.wikipedia.org/wiki/Computer_networks) are connected to the Internet. For example, some [classified United States websites](http://en.wikipedia.org/wiki/Classified_United_States_website) are only accessible from separate secure networks.

**General structure**

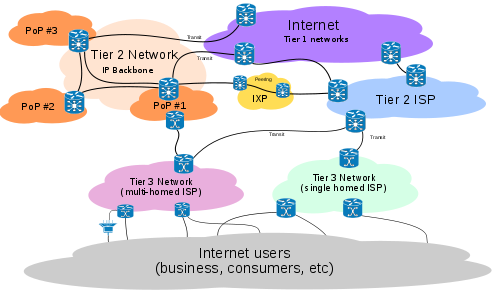
The Internet structure and its usage characteristics have been studied extensively. It has been determined that both the Internet IP routing structure and hypertext links of the World Wide Web are examples of [scale-free networks](http://en.wikipedia.org/wiki/Scale-free_network).[[30]](http://en.wikipedia.org/wiki/Internet#cite_note-29)

Many computer scientists describe the Internet as a "prime example of a large-scale, highly engineered, yet highly complex system".[[31]](http://en.wikipedia.org/wiki/Internet#cite_note-30) The Internet is heterogeneous; for instance, [data transfer rates](http://en.wikipedia.org/wiki/Data_transfer_rate)and physical characteristics of connections vary widely. The Internet exhibits "[emergent phenomena](http://en.wikipedia.org/wiki/Emergence)" that depend on its large-scale organization. For example, data transfer rates exhibit temporal [self-similarity](http://en.wikipedia.org/wiki/Self-similarity). The principles of the routing and addressing methods for traffic in the Internet reach back to their origins in the 1960s when the eventual scale and popularity of the network could not be anticipated. Thus, the possibility of developing alternative structures is investigated.[[32]](http://en.wikipedia.org/wiki/Internet#cite_note-31) The Internet structure was found to be highly robust[[33]](http://en.wikipedia.org/wiki/Internet#cite_note-32) to random failures and very vulnerable to high degree attacks.[[34]](http://en.wikipedia.org/wiki/Internet#cite_note-33)

**Modern uses**

The Internet allows greater flexibility in working hours and location, especially with the spread of unmetered high-speed connections. The Internet can be accessed almost anywhere by numerous means, including through [mobile Internet devices](http://en.wikipedia.org/wiki/Mobile_Internet_device). Mobile phones, [datacards](http://en.wikipedia.org/wiki/Datacard), [handheld game consoles](http://en.wikipedia.org/wiki/Handheld_game_console) and [cellular routers](http://en.wikipedia.org/wiki/Cellular_router) allow users to connect to the Internet [wirelessly](http://en.wikipedia.org/wiki/Wireless). Within the limitations imposed by small screens and other limited facilities of such pocket-sized devices, the services of the Internet, including email and the web, may be available. Service providers may restrict the services offered and mobile data charges may be significantly higher than other access methods.

Educational material at all levels from pre-school to post-doctoral is available from websites. Examples range from [CBeebies](http://en.wikipedia.org/wiki/CBeebies), through school and high-school revision guides, [virtual universities](http://en.wikipedia.org/wiki/Virtual_university), to access to top-end scholarly literature through the likes of [Google Scholar](http://en.wikipedia.org/wiki/Google_Scholar). For [distance education](http://en.wikipedia.org/wiki/Distance_education), help with [homework](http://en.wikipedia.org/wiki/Homework) and other assignments, self-guided learning, whiling away spare time, or just looking up more detail on an interesting fact, it has never been easier for people to access educational information at any level from anywhere. The Internet in general and the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) in particular are important enablers of both [formal](http://en.wikipedia.org/wiki/Education) and [informal education](http://en.wikipedia.org/wiki/Informal_education).

[](http://en.wikipedia.org/wiki/File:Internet_Connectivity_Distribution_&_Core.svg)The low cost and nearly instantaneous sharing of ideas, knowledge, and skills has made [collaborative](http://en.wikipedia.org/wiki/Collaboration) work dramatically easier, with the help of [collaborative software](http://en.wikipedia.org/wiki/Collaborative_software). Not only can a group cheaply communicate and share ideas but the wide reach of the Internet allows such groups more easily to form. An example of this is the [free software movement](http://en.wikipedia.org/wiki/Free_software_movement), which has produced, among other things, [Linux](http://en.wikipedia.org/wiki/Linux), [Mozilla Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox), and [OpenOffice.org](http://en.wikipedia.org/wiki/OpenOffice.org). Internet chat, whether in the form of an [IRC](http://en.wikipedia.org/wiki/IRC) chat room or channel, via an [instant messaging](http://en.wikipedia.org/wiki/Instant_messaging) system, or a [social networking](http://en.wikipedia.org/wiki/Social_networking) website, allows colleagues to stay in touch in a very convenient way when working at their computers during the day. Messages can be exchanged even more quickly and conveniently than via email. These systems may allow files to be exchanged, drawings and images to be shared, or voice and video contact between team members.

[Content management](http://en.wikipedia.org/wiki/Content_management) systems allow collaborating teams to work on shared sets of documents simultaneously without accidentally destroying each other's work. Business and project teams can share calendars as well as documents and other information. Such collaboration occurs in a wide variety of areas including scientific research, software development, conference planning, political activism and creative writing. Social and political collaboration is also becoming more widespread as both Internet access and [computer literacy](http://en.wikipedia.org/wiki/Computer_literacy) spread.

The Internet allows computer users to [remotely access](http://en.wikipedia.org/wiki/Remote_access) other computers and information stores easily, wherever they may be. They may do this with or without [computer security](http://en.wikipedia.org/wiki/Computer_security), i.e. authentication and encryption technologies, depending on the requirements. This is encouraging new ways of working from home, collaboration and information sharing in many industries. An accountant sitting at home can [audit](http://en.wikipedia.org/wiki/Audit) the books of a company based in another country, on a [server](http://en.wikipedia.org/wiki/Server_(computing)) situated in a third country that is remotely maintained by IT specialists in a fourth. These accounts could have been created by home-working bookkeepers, in other remote locations, based on information emailed to them from offices all over the world. Some of these things were possible before the widespread use of the Internet, but the cost of private [leased lines](http://en.wikipedia.org/wiki/Leased_line) would have made many of them infeasible in practice. An office worker away from their desk, perhaps on the other side of the world on a business trip or a holiday, can access their emails, access their data using [cloud computing](http://en.wikipedia.org/wiki/Cloud_computing), or open a [remote desktop](http://en.wikipedia.org/wiki/Remote_Desktop_Protocol) session into their office PC using a secure [Virtual Private Network](http://en.wikipedia.org/wiki/Virtual_Private_Network) (VPN) connection on the Internet. This can give the worker complete access to all of their normal files and data, including email and other applications, while away from the office. This concept has been referred to among [system administrators](http://en.wikipedia.org/wiki/System_administrator) as the Virtual Private Nightmare,[[36]](http://en.wikipedia.org/wiki/Internet#cite_note-35) because it extends the secure perimeter of a corporate network into remote locations and its employees' homes.

**Services**

**Information**

Many people use the terms *Internet* and *World Wide Web*, or just the *Web*, interchangeably, but the two terms are not [synonymous](http://en.wikipedia.org/wiki/Synonymous). The [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) is a global set of [documents](http://en.wikipedia.org/wiki/Documents), [images](http://en.wikipedia.org/wiki/Computer_graphics) and other resources, logically interrelated by [hyperlinks](http://en.wikipedia.org/wiki/Hyperlink) and referenced with [Uniform Resource Identifiers](http://en.wikipedia.org/wiki/Uniform_Resource_Identifier) (URIs). URIs symbolically identify services, [servers](http://en.wikipedia.org/wiki/Web_servers), and other databases, and the documents and resources that they can provide. [Hypertext Transfer Protocol](http://en.wikipedia.org/wiki/Hypertext_Transfer_Protocol) (HTTP) is the main access protocol of the World Wide Web, but it is only one of the hundreds of communication protocols used on the Internet. [Web services](http://en.wikipedia.org/wiki/Web_service) also use HTTP to allow software systems to communicate in order to share and exchange business logic and data.

World Wide Web browser software, such as Microsoft's [Internet Explorer](http://en.wikipedia.org/wiki/Internet_Explorer), [Mozilla Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox), [Opera](http://en.wikipedia.org/wiki/Opera_(web_browser)), [Apple](http://en.wikipedia.org/wiki/Apple_Inc.)'s [Safari](http://en.wikipedia.org/wiki/Safari_(web_browser)), and [Google Chrome](http://en.wikipedia.org/wiki/Google_Chrome), lets users navigate from one web page to another via hyperlinks embedded in the documents. These documents may also contain any combination of [computer data](http://en.wikipedia.org/wiki/Computer_data), including graphics, sounds, [text](http://en.wikipedia.org/wiki/Plain_text), [video](http://en.wikipedia.org/wiki/Web_video), [multimedia](http://en.wikipedia.org/wiki/Multimedia) and interactive content that runs while the user is interacting with the page. [Client-side software](http://en.wikipedia.org/wiki/Client-side_scripting) can include animations, [games](http://en.wikipedia.org/wiki/Web_game), [office applications](http://en.wikipedia.org/wiki/Office_applications) and scientific demonstrations. Through [keyword](http://en.wikipedia.org/wiki/Keyword_(Internet_search))-driven [Internet research](http://en.wikipedia.org/wiki/Internet_research) using [search engines](http://en.wikipedia.org/wiki/Web_search_engine) like[Yahoo!](http://en.wikipedia.org/wiki/Yahoo!_Search) and [Google](http://en.wikipedia.org/wiki/Google_(search_engine)), users worldwide have easy, instant access to a vast and diverse amount of online information. Compared to printed media, books, encyclopedias and traditional libraries, the World Wide Web has enabled the decentralization of information on a large scale.

The Web has also enabled individuals and organizations to [publish](http://en.wikipedia.org/wiki/Publish) ideas and information to a potentially large [audience](http://en.wikipedia.org/wiki/Audience) online at greatly reduced expense and time delay. Publishing a web page, a blog, or building a website involves little initial [cost](http://en.wikipedia.org/wiki/Cost) and many cost-free services are available. Publishing and maintaining large, professional web sites with attractive, diverse and up-to-date information is still a difficult and expensive proposition, however. Many individuals and some companies and groups use *web logs* or blogs, which are largely used as easily updatable online diaries. Some commercial organizations encourage [staff](http://en.wikipedia.org/wiki/Employees) to communicate advice in their areas of specialization in the hope that visitors will be impressed by the expert knowledge and free information, and be attracted to the corporation as a result. One example of this practice is [Microsoft](http://en.wikipedia.org/wiki/Microsoft), whose [product developers](http://en.wikipedia.org/wiki/Software_developer) publish their personal blogs in order to pique the public's interest in their work. Collections of personal web pages published by large service providers remain popular, and have become increasingly sophisticated. Whereas operations such as [Angelfire](http://en.wikipedia.org/wiki/Angelfire) and [GeoCities](http://en.wikipedia.org/wiki/GeoCities) have existed since the early days of the Web, newer offerings from, for example, Facebook and Twitter currently have large followings. These operations often brand themselves as [social network services](http://en.wikipedia.org/wiki/Social_network_service) rather than simply as web page hosts.

[Advertising](http://en.wikipedia.org/wiki/Online_advertising) on popular web pages can be lucrative, and [e-commerce](http://en.wikipedia.org/wiki/E-commerce) or the sale of products and services directly via the Web continues to grow.

When the Web began in the 1990s, a typical web page was stored in completed form on a web server, formatted in [HTML](http://en.wikipedia.org/wiki/HTML), ready to be sent to a user's browser in response to a request. Over time, the process of creating and serving web pages has become more automated and more dynamic. Websites are often created using [content management](http://en.wikipedia.org/wiki/Content_management) or [wiki](http://en.wikipedia.org/wiki/Wiki) software with, initially, very little content. Contributors to these systems, who may be paid staff, members of a club or other organization or members of the public, fill underlying databases with content using editing pages designed for that purpose, while casual visitors view and read this content in its final HTML form. There may or may not be editorial, approval and security systems built into the process of taking newly entered content and making it available to the target visitors.

**Communication**

Email is an important communications service available on the Internet. The concept of sending electronic text messages between parties in a way analogous to mailing letters or memos predates the creation of the Internet. Pictures, documents and other files are sent as [email attachments](http://en.wikipedia.org/wiki/Email_attachment). Emails can be [cc-ed](http://en.wikipedia.org/wiki/Carbon_copy) to multiple [email addresses](http://en.wikipedia.org/wiki/Email_address).

[Internet telephony](http://en.wikipedia.org/wiki/Internet_telephony) is another common communications service made possible by the creation of the Internet. [VoIP](http://en.wikipedia.org/wiki/VoIP) stands for Voice-over-[Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol), referring to the protocol that underlies all Internet communication. The idea began in the early 1990s with [walkie-talkie](http://en.wikipedia.org/wiki/Walkie-talkie)-like voice applications for personal computers. In recent years many VoIP systems have become as easy to use and as convenient as a normal telephone. The benefit is that, as the Internet carries the voice traffic, VoIP can be free or cost much less than a traditional telephone call, especially over long distances and especially for those with always-on Internet connections such as [cable](http://en.wikipedia.org/wiki/Cable_modem) or [ADSL](http://en.wikipedia.org/wiki/ADSL). VoIP is maturing into a competitive alternative to traditional telephone service. Interoperability between different providers has improved and the ability to call or receive a call from a traditional telephone is available. Simple, inexpensive VoIP network adapters are available that eliminate the need for a personal computer.

Voice quality can still vary from call to call, but is often equal to and can even exceed that of traditional calls. Remaining problems for VoIP include [emergency telephone number](http://en.wikipedia.org/wiki/Emergency_telephone_number) dialing and reliability. Currently, a few VoIP providers provide an emergency service, but it is not universally available. Traditional phones are line-powered and operate during a power failure; VoIP does not do so without a[backup power source](http://en.wikipedia.org/wiki/Uninterruptible_power_supply) for the phone equipment and the Internet access devices. VoIP has also become increasingly popular for gaming applications, as a form of communication between players. Popular VoIP clients for gaming include [Ventrilo](http://en.wikipedia.org/wiki/Ventrilo) and [Teamspeak](http://en.wikipedia.org/wiki/Teamspeak). [Wii](http://en.wikipedia.org/wiki/Wii), [PlayStation 3](http://en.wikipedia.org/wiki/PlayStation_3), and [Xbox 360](http://en.wikipedia.org/wiki/Xbox_360) also offer VoIP chat features.

**Data transfer**

[File sharing](http://en.wikipedia.org/wiki/File_sharing) is an example of transferring large amounts of data across the Internet. A [computer file](http://en.wikipedia.org/wiki/Computer_file) can be emailed to customers, colleagues and friends as an attachment. It can be uploaded to a website or [FTP](http://en.wikipedia.org/wiki/File_Transfer_Protocol) server for easy download by others. It can be put into a "shared location" or onto a [file server](http://en.wikipedia.org/wiki/File_server) for instant use by colleagues. The load of bulk downloads to many users can be eased by the use of "[mirror](http://en.wikipedia.org/wiki/Mirror_(computing))" servers or [peer-to-peer](http://en.wikipedia.org/wiki/Peer-to-peer) networks. In any of these cases, access to the file may be controlled by user [authentication](http://en.wikipedia.org/wiki/Authentication), the transit of the file over the Internet may be obscured by[encryption](http://en.wikipedia.org/wiki/Encryption), and money may change hands for access to the file. The price can be paid by the remote charging of funds from, for example, a credit card whose details are also passed – usually fully encrypted – across the Internet. The origin and authenticity of the file received may be checked by [digital signatures](http://en.wikipedia.org/wiki/Digital_signature) or by [MD5](http://en.wikipedia.org/wiki/MD5) or other message digests. These simple features of the Internet, over a worldwide basis, are changing the production, sale, and distribution of anything that can be reduced to a computer file for transmission. This includes all manner of print publications, software products, news, music, film, video, photography, graphics and the other arts. This in turn has caused seismic shifts in each of the existing industries that previously controlled the production and distribution of these products.

[Streaming media](http://en.wikipedia.org/wiki/Streaming_media) is the real-time delivery of digital media for the immediate consumption or enjoyment by end users. Many radio and television broadcasters provide Internet feeds of their live audio and video productions. They may also allow time-shift viewing or listening such as Preview, Classic Clips and Listen Again features. These providers have been joined by a range of pure Internet "broadcasters" who never had on-air licenses. This means that an Internet-connected device, such as a computer or something more specific, can be used to access on-line media in much the same way as was previously possible only with a television or radio receiver. The range of available types of content is much wider, from specialized technical [webcasts](http://en.wikipedia.org/wiki/Webcast) to on-demand popular multimedia services. [Podcasting](http://en.wikipedia.org/wiki/Podcast) is a variation on this theme, where – usually audio – material is downloaded and played back on a computer or shifted to a [portable media player](http://en.wikipedia.org/wiki/Portable_media_player) to be listened to on the move. These techniques using simple equipment allow anybody, with little censorship or licensing control, to broadcast audio-visual material worldwide.

[Webcams](http://en.wikipedia.org/wiki/Webcam) are a low-cost extension of this phenomenon. While some webcams can give full-frame-rate video, the picture either is usually small or updates slowly. Internet users can watch animals around an African waterhole, ships in the [Panama Canal](http://en.wikipedia.org/wiki/Panama_Canal), traffic at a local roundabout or monitor their own premises, live and in real time. Video [chat rooms](http://en.wikipedia.org/wiki/Chat_rooms) and [video conferencing](http://en.wikipedia.org/wiki/Video_conferencing) are also popular with many uses being found for personal webcams, with and without two-way sound. YouTube was founded on 15 February 2005 and is now the leading website for free streaming video with a vast number of users. It uses a [flash](http://en.wikipedia.org/wiki/Adobe_Flash)-based web player to stream and show video files. Registered users may upload an unlimited amount of video and build their own personal profile. YouTube claims that its users watch hundreds of millions, and upload hundreds of thousands of videos daily.[[38]](http://en.wikipedia.org/wiki/Internet#cite_note-37)

## Access

Common methods of [Internet access](http://en.wikipedia.org/wiki/Internet_access) in homes include dial-up, landline [broadband](http://en.wikipedia.org/wiki/Broadband_Internet_access) (over [coaxial cable](http://en.wikipedia.org/wiki/Coaxial_cable), [fiber optic](http://en.wikipedia.org/wiki/Fiber_optic) or copper wires), [Wi-Fi](http://en.wikipedia.org/wiki/Wi-Fi), [satellite](http://en.wikipedia.org/wiki/Satellite_Internet) and [3G](http://en.wikipedia.org/wiki/3G)/[4G](http://en.wikipedia.org/wiki/4G) technology [cell phones](http://en.wikipedia.org/wiki/Mobile_phone). Public places to use the Internet include libraries and [Internet cafes](http://en.wikipedia.org/wiki/Internet_cafe), where computers with Internet connections are available. There are also [Internet access points](http://en.wikipedia.org/wiki/Internet_kiosk) in many public places such as airport halls and coffee shops, in some cases just for brief use while standing. Various terms are used, such as "public Internet kiosk", "public access terminal", and "Web [payphone](http://en.wikipedia.org/wiki/Payphone)". Many hotels now also have public terminals, though these are usually fee-based. These terminals are widely accessed for various usage like ticket booking, bank deposit, online payment etc. Wi-Fi provides wireless access to computer networks, and therefore can do so to the Internet itself. [Hotspots](http://en.wikipedia.org/wiki/Hotspot_(Wi-Fi)) providing such access include [Wi-Fi cafes](http://en.wikipedia.org/wiki/Wi-Fi#Internet_access), where would-be users need to bring their own wireless-enabled devices such as a laptop or [PDA](http://en.wikipedia.org/wiki/Personal_Digital_Assistant). These services may be free to all, free to customers only, or fee-based. A hotspot need not be limited to a confined location. A whole campus or park, or even an entire city can be enabled.

[Grassroots](http://en.wikipedia.org/wiki/Grassroots) efforts have led to [wireless community networks](http://en.wikipedia.org/wiki/Wireless_community_network). Commercial Wi-Fi services covering large city areas are in place in London, [Vienna](http://en.wikipedia.org/wiki/Vienna), [Toronto](http://en.wikipedia.org/wiki/Toronto), San Francisco, [Philadelphia](http://en.wikipedia.org/wiki/Philadelphia), Chicago and[Pittsburgh](http://en.wikipedia.org/wiki/Pittsburgh). The Internet can then be accessed from such places as a park bench.[[39]](http://en.wikipedia.org/wiki/Internet#cite_note-38) Apart from Wi-Fi, there have been experiments with proprietary mobile wireless networks like [Ricochet](http://en.wikipedia.org/wiki/Ricochet_(Internet_service)), various high-speed data services over cellular phone networks, and fixed wireless services. High-end mobile phones such as [smartphones](http://en.wikipedia.org/wiki/Smartphone) in general come with Internet access through the phone network. Web browsers such as [Opera](http://en.wikipedia.org/wiki/Opera_(web_browser)) are available on these advanced handsets, which can also run a wide variety of other Internet software. More mobile phones have Internet access than PCs, though this is not as widely used.[[40]](http://en.wikipedia.org/wiki/Internet#cite_note-39) An Internet access provider and protocol matrix differentiates the methods used to get online.

## Social impact

The Internet has enabled entirely new forms of social interaction, activities, and organizing, thanks to its basic features such as widespread usability and access. In the first decade of the 21st century, the first generation is raised with widespread availability of Internet connectivity, bringing consequences and concerns in areas such as personal privacy and identity, and distribution of copyrighted materials. These "[digital natives](http://en.wikipedia.org/wiki/Digital_natives)" face a variety of challenges that were not present for prior generations.

**Social networking and entertainment**

Many people use the World Wide Web to access news, weather and sports reports, to plan and book vacations and to find out more about their interests. People use [chat](http://en.wikipedia.org/wiki/Online_chat), messaging and email to make and stay in touch with friends worldwide, sometimes in the same way as some previously had [pen pals](http://en.wikipedia.org/wiki/Pen_pal). The Internet has seen a growing number of [Web desktops](http://en.wikipedia.org/wiki/Web_desktop), where users can access their files and settings via the Internet.

[Social networking](http://en.wikipedia.org/wiki/Social_network_service) websites such as Facebook, Twitter, and MySpace have created new ways to socialize and interact. Users of these sites are able to add a wide variety of information to pages, to pursue common interests, and to connect with others. It is also possible to find existing acquaintances, to allow communication among existing groups of people. Sites like [LinkedIn](http://en.wikipedia.org/wiki/LinkedIn)foster commercial and business connections. YouTube and [Flickr](http://en.wikipedia.org/wiki/Flickr) specialize in users' videos and photographs.

The Internet has been a major outlet for leisure activity since its inception, with entertaining social experiments such as [MUDs](http://en.wikipedia.org/wiki/MUD)and [MOOs](http://en.wikipedia.org/wiki/MOO) being conducted on university servers, and humor-related [Usenet](http://en.wikipedia.org/wiki/Usenet) groups receiving much traffic. Today, many[Internet forums](http://en.wikipedia.org/wiki/Internet_forums) have sections devoted to games and funny videos; short cartoons in the form of [Flash movies](http://en.wikipedia.org/wiki/Flash_animation) are also popular. Over 6 million people use blogs or message boards as a means of communication and for the sharing of ideas. The pornography and gambling industries have taken advantage of the World Wide Web, and often provide a significant source of advertising revenue for other websites.[[55]](http://en.wikipedia.org/wiki/Internet#cite_note-54) Although many governments have attempted to restrict both industries' use of the Internet, in general this has failed to stop their widespread popularity.[[56]](http://en.wikipedia.org/wiki/Internet#cite_note-55)

Another area of leisure activity on the Internet is [multiplayer gaming](http://en.wikipedia.org/wiki/Multiplayer_gaming).[[57]](http://en.wikipedia.org/wiki/Internet#cite_note-56) This form of recreation creates communities, where people of all ages and origins enjoy the fast-paced world of multiplayer games. These range from [MMORPG](http://en.wikipedia.org/wiki/MMORPG) to [first-person shooters](http://en.wikipedia.org/wiki/First-person_shooter), from [role-playing video games](http://en.wikipedia.org/wiki/Role-playing_video_game) to [online gambling](http://en.wikipedia.org/wiki/Online_gambling). While online gaming has been around since the 1970s, modern modes of online gaming began with subscription services such as [GameSpy](http://en.wikipedia.org/wiki/GameSpy_Arcade) and [MPlayer](http://en.wikipedia.org/wiki/MPlayer.com).[[58]](http://en.wikipedia.org/wiki/Internet#cite_note-57) Non-subscribers were limited to certain types of game play or certain games. Many people use the Internet to access and download music, movies and other works for their enjoyment and relaxation. Free and fee-based services exist for all of these activities, using centralized servers and distributed peer-to-peer technologies. Some of these sources exercise more care with respect to the original artists' copyrights than others.

Internet usage has been correlated to users' loneliness.[[59]](http://en.wikipedia.org/wiki/Internet#cite_note-58) Lonely people tend to use the Internet as an outlet for their feelings and to share their stories with others, such as in the "[I am lonely will anyone speak to me](http://en.wikipedia.org/wiki/I_am_lonely_will_anyone_speak_to_me)" thread.

[Cybersectarianism](http://en.wikipedia.org/wiki/Cybersectarianism) is a new organizational form which involves: "highly dispersed small groups of practitioners that may remain largely anonymous within the larger social context and operate in relative secrecy, while still linked remotely to a larger network of believers who share a set of practices and texts, and often a common devotion to a particular leader. Overseas supporters provide funding and support; domestic practitioners distribute tracts, participate in acts of resistance, and share information on the internal situation with outsiders. Collectively, members and practitioners of such sects construct viable virtual communities of faith, exchanging personal testimonies and engaging in collective study via email, on-line chat rooms and web-based message boards."[[60]](http://en.wikipedia.org/wiki/Internet#cite_note-59)

[Cyberslacking](http://en.wikipedia.org/wiki/Cyberslacking) can become a drain on corporate resources; the average UK employee spent 57 minutes a day surfing the Web while at work, according to a 2003 study by Peninsula Business Services.[[61]](http://en.wikipedia.org/wiki/Internet#cite_note-60) [Internet addiction disorder](http://en.wikipedia.org/wiki/Internet_addiction_disorder) is excessive computer use that interferes with daily life. Psychologist Nicolas Carr believe that Internet use has other [effects on individuals](http://en.wikipedia.org/wiki/How_internet_use_affects_humans), for instance improving skills of scan-reading and interfering with the deep thinking that leads to true creativity.[[62]](http://en.wikipedia.org/wiki/Internet#cite_note-61)

**Censorship**

Some governments, such as those of [Iran](http://en.wikipedia.org/wiki/Iran), North Korea, [Burma](http://en.wikipedia.org/wiki/Burma), the People's Republic of China, and [Saudi Arabia](http://en.wikipedia.org/wiki/Saudi_Arabia), restrict what people in their countries can access on the Internet, especially political and religious content. This is accomplished through software that filters domains and content so that they may not be easily accessed or obtained without elaborate circumvention.[[70]](http://en.wikipedia.org/wiki/Internet#cite_note-69)

In Norway, Denmark, Finland, and Sweden, major Internet service providers have voluntarily, possibly to avoid such an arrangement being turned into law, agreed to restrict access to sites listed by authorities. While this list of forbidden URLs is supposed to contain addresses of only known child pornography sites, the content of the list is secret.[[71]](http://en.wikipedia.org/wiki/Internet#cite_note-The_Register-70) Many countries, including the United States, have enacted laws against the possession or distribution of certain material, such as [child pornography](http://en.wikipedia.org/wiki/Child_pornography), via the Internet, but do not mandate filtering software. There are many free and commercially available software programs, called [content-control software](http://en.wikipedia.org/wiki/Content-control_software), with which a user can choose to block offensive websites on individual computers or networks, in order to limit a child's access to pornographic materials or depiction of violence.

## Internet protocol suite (TCP/IP)

The **Internet protocol suite** is the set of [communications protocols](http://en.wikipedia.org/wiki/Communications_protocol) used for the [Internet](http://en.wikipedia.org/wiki/Internet) and similar networks, and generally the most popular [protocol stack](http://en.wikipedia.org/wiki/Protocol_stack) for [wide area networks](http://en.wikipedia.org/wiki/Wide_area_network). It is commonly known as **TCP/IP**, because of its most important protocols: [Transmission Control Protocol](http://en.wikipedia.org/wiki/Transmission_Control_Protocol) (TCP) and [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) (IP), which were the first networking protocols defined in this standard. It is occasionally known as the **DoD model** due to the foundational influence of the [ARPANET](http://en.wikipedia.org/wiki/ARPANET) in the 1970s (operated by [DARPA](http://en.wikipedia.org/wiki/DARPA), an agency of the [United States Department of Defense](http://en.wikipedia.org/wiki/United_States_Department_of_Defense)).

TCP/IP provides end-to-end connectivity specifying how data should be formatted, addressed, transmitted, [routed](http://en.wikipedia.org/wiki/Routing) and received at the destination. It has four abstraction layers, each with its own protocols.[[1]](http://en.wikipedia.org/wiki/TCP/IP#cite_note-0)[[2]](http://en.wikipedia.org/wiki/TCP/IP#cite_note-1) From lowest to highest, the layers are:

1. The [link layer](http://en.wikipedia.org/wiki/Link_layer) (commonly [Ethernet](http://en.wikipedia.org/wiki/Ethernet)) contains communication technologies for a [local network](http://en.wikipedia.org/wiki/Local_area_network).
2. The [internet layer](http://en.wikipedia.org/wiki/Internet_layer) (IP) connects local networks, thus establishing [internetworking](http://en.wikipedia.org/wiki/Internetworking).
3. The [transport layer](http://en.wikipedia.org/wiki/Transport_layer) (TCP) handles host-to-host communication.
4. The [application layer](http://en.wikipedia.org/wiki/Application_layer) (for example [HTTP](http://en.wikipedia.org/wiki/HTTP)) contains all protocols for specific data communications services on a process-to-process level (for example how a web browser communicates with a web server).

The TCP/IP model and related protocols are maintained by the [Internet Engineering Task Force](http://en.wikipedia.org/wiki/Internet_Engineering_Task_Force) (IETF).

## Transmission Control Protocol (TCP)

The Transmission Control Protocol (TCP) is one of the core [protocols](http://en.wikipedia.org/wiki/Communications_protocol) of the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite). TCP is one of the two original components of the suite, complementing the [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) (IP), and therefore the entire suite is commonly referred to as TCP/IP. TCP provides reliable, ordered delivery of a stream of bytes from a program on one computer to another program on another computer. TCP is the protocol used by major Internet applications such as the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web), [email](http://en.wikipedia.org/wiki/Email), [remote administration](http://en.wikipedia.org/wiki/Remote_administration) and [file transfer](http://en.wikipedia.org/wiki/File_transfer). Other applications, which do not require reliable data stream service, may use the [User Datagram Protocol](http://en.wikipedia.org/wiki/User_Datagram_Protocol) (UDP), which provides a [datagram](http://en.wikipedia.org/wiki/Datagram) service that emphasizes reduced [latency](http://en.wikipedia.org/wiki/Latency_(engineering)) over reliability.

## Internet Protocol (IP)

The **Internet Protocol** (**IP**) is the principal [communications protocol](http://en.wikipedia.org/wiki/Communications_protocol) used for relaying [datagrams](http://en.wikipedia.org/wiki/Datagram) (also known as [network packets](http://en.wikipedia.org/wiki/Network_packet)) across an [internetwork](http://en.wikipedia.org/wiki/Internetwork) using the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite). Responsible for [routing](http://en.wikipedia.org/wiki/Routing) packets across network boundaries, it is the primary protocol that establishes the [Internet](http://en.wikipedia.org/wiki/Internet).

IP is the primary protocol in the [Internet Layer](http://en.wikipedia.org/wiki/Internet_Layer) of the Internet Protocol Suite and has the task of delivering datagrams from the source [host](http://en.wikipedia.org/wiki/Host_(network)) to the destination host solely based on the [addresses](http://en.wikipedia.org/wiki/IP_address). For this purpose, IP defines datagram structures that [encapsulate](http://en.wikipedia.org/wiki/Encapsulation_(networking)) the data to be delivered. It also defines [addressing methods](http://en.wikipedia.org/wiki/IP_address) that are used to label the datagram source and destination.

Historically, IP was the connectionless datagram service in the original Transmission Control Program introduced by [Vint Cerf](http://en.wikipedia.org/wiki/Vint_Cerf) and [Bob Kahn](http://en.wikipedia.org/wiki/Bob_Kahn) in 1974, the other being the connection-oriented [Transmission Control Protocol](http://en.wikipedia.org/wiki/Transmission_Control_Protocol) (TCP). The Internet Protocol Suite is therefore often referred to as TCP/IP.

The first major version of IP, [Internet Protocol Version 4](http://en.wikipedia.org/wiki/IPv4) (IPv4), is the dominant protocol of the internet. Its successor is [Internet Protocol Version 6](http://en.wikipedia.org/wiki/IPv6) (IPv6), which is increasing in use.

The Internet Protocol is responsible for addressing hosts and routing datagrams (packets) from a source host to the destination host across one or more IP networks. For this purpose the Internet Protocol defines an addressing system that has two functions: identifying hosts and providing a logical location service. This is accomplished by defining standard datagrams and a standard addressing system.

## Hypertext Transfer Protocol (HTTP)

The **Hypertext Transfer Protocol** (**HTTP**) is an [application protocol](http://en.wikipedia.org/wiki/Application_protocol) for distributed, collaborative, [hypermedia](http://en.wikipedia.org/wiki/Hypermedia) information systems.[[1]](http://en.wikipedia.org/wiki/Http#cite_note-ietf2616-0) HTTP is the foundation of data communication for the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web).

[Hypertext](http://en.wikipedia.org/wiki/Hypertext) is a multi-linear set of objects, building a network by using logical links (the so-called [hyperlinks](http://en.wikipedia.org/wiki/Hyperlinks)) between the [nodes](http://en.wikipedia.org/wiki/Nodes) (e.g. text or words). HTTP is the protocol to exchange or transfer hypertext.

HTTP functions as a [request-response](http://en.wikipedia.org/wiki/Request-response) protocol in the [client-server](http://en.wikipedia.org/wiki/Client-server) computing model. A [web browser](http://en.wikipedia.org/wiki/Web_browser), for example, may be the *client* and an application running on a computer [hosting](http://en.wikipedia.org/wiki/Host_(network)) a [web site](http://en.wikipedia.org/wiki/Web_site) may be the *server*. The client submits an HTTP *request* message to the server. The server, which provides *resources* such as [HTML](http://en.wikipedia.org/wiki/HTML) files and other content, or performs other functions on behalf of the client, returns a *response* message to the client. The response contains completion status information about the request and may also contain requested content in its message body.

A web browser is an example of a [*user agent*](http://en.wikipedia.org/wiki/User_agent) (UA). Other types of user agent include the indexing software used by search providers ([web crawlers](http://en.wikipedia.org/wiki/Web_crawler)), [voice browsers](http://en.wikipedia.org/wiki/Voice_browser), [mobile apps](http://en.wikipedia.org/wiki/Mobile_apps) and other software that accesses, consumes or displays web content.

HTTP is designed to permit intermediate network elements to improve or enable communications between clients and servers. High-traffic websites often benefit from [web cache](http://en.wikipedia.org/wiki/Web_cache) servers that deliver content on behalf of [upstream servers](http://en.wikipedia.org/wiki/Upstream_server) to improve response time. Web browsers cache previously accessed web resources and reuse them when possible to reduce network traffic. HTTP [proxy servers](http://en.wikipedia.org/wiki/Proxy_server) at [private network](http://en.wikipedia.org/wiki/Private_network) boundaries can facilitate communication for clients without a globally routable address, by relaying messages with external servers.

HTTP is an [application layer](http://en.wikipedia.org/wiki/Application_layer) protocol designed within the framework of the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite). Its definition presumes an underlying and reliable [transport layer](http://en.wikipedia.org/wiki/Transport_layer) protocol,[[2]](http://en.wikipedia.org/wiki/Http#cite_note-1) and [Transmission Control Protocol](http://en.wikipedia.org/wiki/Transmission_Control_Protocol) (TCP) predominates for this purpose. However HTTP can use unreliable protocols such as the [User Datagram Protocol](http://en.wikipedia.org/wiki/User_Datagram_Protocol) (UDP), for example in [Simple Service Discovery Protocol](http://en.wikipedia.org/wiki/Simple_Service_Discovery_Protocol) (SSDP).

## User Datagram Protocol (UDP)

The **User Datagram Protocol** (**UDP**) is one of the core members of the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite), the set of network protocols used for the [Internet](http://en.wikipedia.org/wiki/Internet). With UDP, computer applications can send messages, in this case referred to as [*datagrams*](http://en.wikipedia.org/wiki/Datagram), to other hosts on an [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) (IP) network without requiring prior communications to set up special transmission channels or data paths.

UDP uses a simple transmission model without implicit [handshaking](http://en.wikipedia.org/wiki/Handshaking) dialogues for providing reliability, ordering, or data integrity. Thus, UDP provides an unreliable service and datagrams may arrive out of order, appear duplicated, or go missing without notice. UDP assumes that error checking and correction is either not necessary or performed in the application, avoiding the overhead of such processing at the network interface level. Time-sensitive applications often use UDP because dropping packets is preferable to waiting for delayed packets, which may not be an option in a real-time system.[[1]](http://en.wikipedia.org/wiki/User_Datagram_Protocol#cite_note-kuroseross-0) If error correction facilities are needed at the network interface level, an application may use the [Transmission Control Protocol](http://en.wikipedia.org/wiki/Transmission_Control_Protocol) (TCP) or [Stream Control Transmission Protocol](http://en.wikipedia.org/wiki/Stream_Control_Transmission_Protocol)(SCTP) which are designed for this purpose.

UDP's [stateless](http://en.wikipedia.org/wiki/Stateless_server) nature is also useful for servers answering small queries from huge numbers of clients, such as [Domain Name System](http://en.wikipedia.org/wiki/Domain_Name_System) (DNS), [streaming media](http://en.wikipedia.org/wiki/Streaming_media) applications such as [IPTV](http://en.wikipedia.org/wiki/IPTV), [Voice over IP](http://en.wikipedia.org/wiki/Voice_over_IP) (VoIP), [Trivial File Transfer Protocol](http://en.wikipedia.org/wiki/Trivial_File_Transfer_Protocol) (TFTP), [IP tunneling](http://en.wikipedia.org/wiki/IP_tunneling) protocols and many [online games](http://en.wikipedia.org/wiki/Online_game).

## File Transfer Protocol (FTP)

**File Transfer Protocol** (**FTP**) is a standard [network protocol](http://en.wikipedia.org/wiki/Network_protocol) used to transfer files from one [host](http://en.wikipedia.org/wiki/Host_(network)) to another host over a [TCP](http://en.wikipedia.org/wiki/Transmission_Control_Protocol)-based network, such as the[Internet](http://en.wikipedia.org/wiki/Internet). It is often used to upload web pages and other documents from a private development machine to a public web-hosting server. FTP is built on a [client-server](http://en.wikipedia.org/wiki/Client-server_model) architecture and uses separate control and data connections between the client and the server.[[1]](http://en.wikipedia.org/wiki/Ftp#cite_note-for-0) FTP users may authenticate themselves using a [clear-text](http://en.wikipedia.org/wiki/Clear_text) sign-in protocol, normally in the form of a username and password, but can connect anonymously if the server is configured to allow it. For secure transmission that hides (encrypts) the username and password, and encrypts the content, [SSH File Transfer Protocol](http://en.wikipedia.org/wiki/SSH_File_Transfer_Protocol) may be used.

The first FTP client applications were interactive command-line tools, implementing standard commands and syntax. [Graphical user interfaces](http://en.wikipedia.org/wiki/GUI) have since been developed for many of the popular desktop operating systems in use today,[[2]](http://en.wikipedia.org/wiki/Ftp#cite_note-tcpip-1)[[3]](http://en.wikipedia.org/wiki/Ftp#cite_note-net.2B-2) including general web design programs like [Microsoft Expression Web](http://en.wikipedia.org/wiki/Microsoft_Expression_Web), and specialist FTP clients such as [CuteFTP](http://en.wikipedia.org/wiki/CuteFTP).

## Simple Mail Transfer Protocol (SMTP)

**Simple Mail Transfer Protocol** (**SMTP**) is an [Internet standard](http://en.wikipedia.org/wiki/Internet_standard) for [electronic mail](http://en.wikipedia.org/wiki/E-mail) (e-mail) transmission across [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) (IP) networks. SMTP was first defined by [RFC 821](http://tools.ietf.org/html/rfc821) (1982, eventually declared [STD](http://en.wikipedia.org/wiki/Internet_standard) 10),[[1]](http://en.wikipedia.org/wiki/Simple_Mail_Transfer_Protocol#cite_note-rfc821-0) and last updated by [RFC 5321](http://tools.ietf.org/html/rfc5321) (2008)[[2]](http://en.wikipedia.org/wiki/Simple_Mail_Transfer_Protocol#cite_note-rfc5321-1) which includes the [extended SMTP](http://en.wikipedia.org/wiki/Extended_SMTP) (ESMTP) additions, and is the protocol in widespread use today. SMTP connections secured by [SSL](http://en.wikipedia.org/wiki/Secure_Sockets_Layer) are known by the shorthand [SMTPS](http://en.wikipedia.org/wiki/SMTPS), though SMTPS is not a protocol in its own right.

While electronic [mail servers](http://en.wikipedia.org/wiki/Mail_server) and other [mail transfer agents](http://en.wikipedia.org/wiki/Mail_transfer_agent) use SMTP to send and receive mail messages, user-level client mail applications typically only use SMTP for sending messages to a mail server for [relaying](http://en.wikipedia.org/wiki/Mail_relay). For receiving messages, client applications usually use either the [Post Office Protocol](http://en.wikipedia.org/wiki/Post_Office_Protocol) (POP) or the [Internet Message Access Protocol](http://en.wikipedia.org/wiki/Internet_Message_Access_Protocol) (IMAP) or a proprietary system (such as Microsoft Exchange or [Lotus Notes](http://en.wikipedia.org/wiki/Lotus_Notes)/[Domino](http://en.wikipedia.org/wiki/IBM_Lotus_Domino)) to access their mail box accounts on a mail server.

## Post Office Protocol (POP)

In computing, the **Post Office Protocol** (**POP**) is an [application-layer](http://en.wikipedia.org/wiki/Application_layer) [Internet standard](http://en.wikipedia.org/wiki/Internet_standard) [protocol](http://en.wikipedia.org/wiki/Protocol_(computing)) used by local [e-mail clients](http://en.wikipedia.org/wiki/E-mail_client) to retrieve [e-mail](http://en.wikipedia.org/wiki/E-mail) from a remote [server](http://en.wikipedia.org/wiki/Mail_server) over a [TCP/IP](http://en.wikipedia.org/wiki/Internet_protocol_suite) connection.[[1]](http://en.wikipedia.org/wiki/Post_Office_Protocol#cite_note-Network.2B_Guide_to_Networks-0) POP and [IMAP](http://en.wikipedia.org/wiki/IMAP) (Internet Message Access Protocol) are the two most prevalent [Internet](http://en.wikipedia.org/wiki/Internet) standard protocols for e-mail retrieval.[[2]](http://en.wikipedia.org/wiki/Post_Office_Protocol#cite_note-Red_Hat-1) Virtually all modern e-mail clients and [servers](http://en.wikipedia.org/wiki/Server_(computing)) support both. The POP protocol has been developed through several versions, with version 3 (POP3) being the current standard. Most [webmail](http://en.wikipedia.org/wiki/Webmail) service providers such as [Hotmail](http://en.wikipedia.org/wiki/Hotmail), [Gmail](http://en.wikipedia.org/wiki/Gmail) and [Yahoo! Mail](http://en.wikipedia.org/wiki/Yahoo!_Mail) also provide IMAP and POP3 service.

## Internet Message Access Protocol (IMAP)

**Internet message access protocol** (**IMAP**) is one of the two most prevalent [Internet standard](http://en.wikipedia.org/wiki/Internet_standard) protocols for [e-mail](http://en.wikipedia.org/wiki/E-mail) retrieval, the other being the [Post Office Protocol](http://en.wikipedia.org/wiki/Post_Office_Protocol) (POP).[[1]](http://en.wikipedia.org/wiki/IMAP#cite_note-0) Virtually all modern [e-mail clients](http://en.wikipedia.org/wiki/E-mail_client) and [mail servers](http://en.wikipedia.org/wiki/Mail_server) support both protocols as a means of transferring e-mail messages from a server.

IMAP supports both [on-line and off-line](http://en.wikipedia.org/wiki/On-line_and_off-line) modes of operation. E-mail clients using IMAP generally leave messages on the server until the user explicitly deletes them. This and other characteristics of IMAP operation allow multiple clients to manage the same mailbox. Most e-mail *clients* support IMAP in addition to POP to retrieve messages; however, fewer email *services* support IMAP.[[2]](http://en.wikipedia.org/wiki/IMAP#cite_note-1) IMAP offers access to the mail storage. Clients may store local copies of the messages, but these are considered to be a temporary cache. Incoming e-mail messages are sent to an e-mail server that stores messages in the recipient's email box. The user retrieves the messages with an e-mail client that uses one of a number of e-mail retrieval protocols. Some clients and servers preferentially use vendor-specific, [proprietary protocols](http://en.wikipedia.org/wiki/Proprietary_protocol), but most support the Internet standard protocols, [SMTP](http://en.wikipedia.org/wiki/SMTP) for sending e-mail and POP and IMAP for retrieving e-mail, allowing interoperability with other servers and clients. For example, [Microsoft](http://en.wikipedia.org/wiki/Microsoft)'s [Outlook](http://en.wikipedia.org/wiki/Microsoft_Outlook) client uses a proprietary protocol to communicate with a [Microsoft Exchange Server](http://en.wikipedia.org/wiki/Microsoft_Exchange_Server) server as does [IBM](http://en.wikipedia.org/wiki/IBM)'s [Notes](http://en.wikipedia.org/wiki/Lotus_Notes) client when communicating with a [Domino](http://en.wikipedia.org/wiki/IBM_Lotus_Domino) server, but all of these products also support POP, IMAP, and outgoing SMTP. Support for the Internet standard protocols allows many e-mail clients such as [Pegasus Mail](http://en.wikipedia.org/wiki/Pegasus_Mail) or [Mozilla Thunderbird](http://en.wikipedia.org/wiki/Mozilla_Thunderbird) (see [comparison of e-mail clients](http://en.wikipedia.org/wiki/Comparison_of_e-mail_clients)) to access these servers, and allows the clients to be used with other servers (see [list of mail servers](http://en.wikipedia.org/wiki/List_of_mail_servers)).

## World Wide Web (WWW)

The **World Wide Web** (abbreviated as **WWW** or **W3**,[[2]](http://en.wikipedia.org/wiki/Www#cite_note-1) commonly known as **the Web**, or the "Information Superhighway"), is a [system](http://en.wikipedia.org/wiki/Information_system) of interlinked [hypertext](http://en.wikipedia.org/wiki/Hypertext) documents accessed via the [Internet](http://en.wikipedia.org/wiki/Internet). With a [web browser](http://en.wikipedia.org/wiki/Web_browser), one can view [web pages](http://en.wikipedia.org/wiki/Web_page) that may contain text, images, videos, and other [multimedia](http://en.wikipedia.org/wiki/Multimedia), and [navigate](http://en.wikipedia.org/wiki/Web_navigation) between them via [hyperlinks](http://en.wikipedia.org/wiki/Hyperlink).

The terms Internet and World Wide Web are often used in everyday speech without much distinction. However, the Internet and the World Wide Web are not one and the same. The Internet is a global system of interconnected [computer networks](http://en.wikipedia.org/wiki/Computer_networks). In contrast, the Web is one of the services that runs on the Internet. It is a collection of text documents and other resources, linked by hyperlinks and URLs, usually accessed by [web browsers](http://en.wikipedia.org/wiki/Web_browsers) from [web servers](http://en.wikipedia.org/wiki/Web_servers). In short, the Web can be thought of as an [application](http://en.wikipedia.org/wiki/Application_software) "running" on the Internet.[[24]](http://en.wikipedia.org/wiki/Www#cite_note-23)

Viewing a [web page](http://en.wikipedia.org/wiki/Web_page) on the World Wide Web normally begins either by typing the [URL](http://en.wikipedia.org/wiki/Uniform_Resource_Locator) of the page into a [web browser](http://en.wikipedia.org/wiki/Web_browser) or by following a [hyperlink](http://en.wikipedia.org/wiki/Hyperlink) to that page or resource. The web browser then initiates a series of communication messages, behind the scenes, in order to fetch and display it. As an example, consider accessing a page with the URL <http://example.org/wiki/World_Wide_Web>.

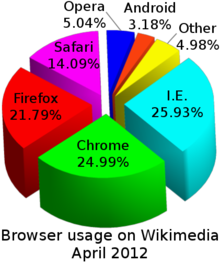
First, the browser resolves the server-name portion of the URL (*example.org*) into an [Internet Protocol address](http://en.wikipedia.org/wiki/IP_address) using the globally distributed database known as the [Domain Name System](http://en.wikipedia.org/wiki/Domain_Name_System) (DNS); this lookup returns an IP address such as *208.80.152.2*. The browser then requests the resource by sending an [HTTP](http://en.wikipedia.org/wiki/Hypertext_Transfer_Protocol) request across the Internet to the computer at that particular address. It makes the request to a particular application port in the underlying [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite) so that the computer receiving the request can distinguish an HTTP request from other network protocols it may be servicing such as e-mail delivery; the HTTP protocol normally uses [port 80](http://en.wikipedia.org/wiki/List_of_TCP_and_UDP_port_numbers). The content of the HTTP request can be as simple as the two lines of text

## Web browser

A **web browser** is a [software application](http://en.wikipedia.org/wiki/Software_application) for retrieving, presenting, and traversing information resources on the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web). An *information resource* is identified by a [Uniform Resource Identifier](http://en.wikipedia.org/wiki/Uniform_Resource_Identifier) (URI) and may be a [web page](http://en.wikipedia.org/wiki/Web_page), image, video, or other piece of content.[[1]](http://en.wikipedia.org/wiki/Web_browser#cite_note-0)

[Hyperlinks](http://en.wikipedia.org/wiki/Hyperlinks) present in resources enable users easily to navigate their [browsers](http://en.wikipedia.org/wiki/Browse) to related resources. A web browser can also be defined as an [application software](http://en.wikipedia.org/wiki/Application_software) or program designed to enable users to access, retrieve and view documents and other resources on the [Internet](http://en.wikipedia.org/wiki/Internet).

Although browsers are primarily intended to access the World Wide Web, they can also be used to access information provided by [web servers](http://en.wikipedia.org/wiki/Web_servers) in [private networks](http://en.wikipedia.org/wiki/Private_networks) or files in [file systems](http://en.wikipedia.org/wiki/File_systems). The major web browsers are [Firefox](http://en.wikipedia.org/wiki/Firefox), [Google Chrome](http://en.wikipedia.org/wiki/Google_Chrome), [Internet Explorer](http://en.wikipedia.org/wiki/Internet_Explorer), [Opera](http://en.wikipedia.org/wiki/Opera_(web_browser)), and [Safari](http://en.wikipedia.org/wiki/Safari_(web_browser)).[[2]](http://en.wikipedia.org/wiki/Web_browser#cite_note-1)

[](http://en.wikipedia.org/wiki/File:Wikimedia_browser_share_pie_chart_3.png)The primary purpose of a web browser is to bring information resources to the user. This process begins when the user inputs a [Uniform Resource Locator](http://en.wikipedia.org/wiki/Uniform_Resource_Locator) (URL), for example *http://en.wikipedia.org/*, into the browser. The prefix of the URL, the Uniform Resource Identifier or [URI](http://en.wikipedia.org/wiki/URI), determines how the URL will be interpreted. The most commonly used kind of URI starts with *http:* and identifies a resource to be retrieved over the [Hypertext Transfer Protocol](http://en.wikipedia.org/wiki/Hypertext_Transfer_Protocol) (HTTP)[[10]](http://en.wikipedia.org/wiki/Web_browser#cite_note-9). Many browsers also support a variety of other prefixes, such as *https:* for [HTTPS](http://en.wikipedia.org/wiki/HTTPS), *ftp:* for the [File Transfer Protocol](http://en.wikipedia.org/wiki/File_Transfer_Protocol), and *file:* for [local files](http://en.wikipedia.org/wiki/Computer_file). Prefixes that the web browser cannot directly handle are often handed off to another application entirely. For example, *mailto:* URIs are usually passed to the user's default e-mail application, and *news:* URIs are passed to the user's default newsgroup reader.

In the case of *http*, *https*, *file*, and others, once the resource has been retrieved the web browser will display it. [HTML](http://en.wikipedia.org/wiki/HTML) is passed to the browser's [layout engine](http://en.wikipedia.org/wiki/Layout_engine) to be transformed from [markup](http://en.wikipedia.org/wiki/Markup_language) to an interactive document. Aside from HTML, web browsers can generally display any kind of content that can be part of a web page. Most browsers can display images, audio, video, and [XML](http://en.wikipedia.org/wiki/XML) files, and often have [plug-ins](http://en.wikipedia.org/wiki/Plug-in_(computing)) to support [Flash](http://en.wikipedia.org/wiki/Adobe_Flash) applications and [Java applets](http://en.wikipedia.org/wiki/Java_applets). Upon encountering a file of an unsupported type or a file that is set up to be downloaded rather than displayed, the browser prompts the user to save the file to disk.

Information resources may contain [hyperlinks](http://en.wikipedia.org/wiki/Hyperlinks) to other information resources. Each link contains the URI of a resource to go to. When a link is clicked, the browser navigates to the resource indicated by the link's target URI, and the process of bringing content to the user begins again.

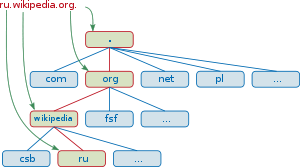
## Uniform resource identifier (URI)

In [computing](http://en.wikipedia.org/wiki/Information_technology), a **uniform resource identifier** (**URI**) is a [string](http://en.wikipedia.org/wiki/Character_string_(computer_science)) of [characters](http://en.wikipedia.org/wiki/Character_(computing)) used to [identify](http://en.wikipedia.org/wiki/Identifier) a name or a [resource](http://en.wikipedia.org/wiki/Resource_(Web)). Such identification enables interaction with representations of the resource over a network (typically the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web)) using specific [protocols](http://en.wikipedia.org/wiki/Protocol_(computing)). Schemes specifying a concrete [syntax](http://en.wikipedia.org/wiki/Syntax) and associated protocols define each URI.

URIs can be classified as locators (URLs), as names (URNs), or as both. A [uniform resource name](http://en.wikipedia.org/wiki/Uniform_resource_name) (URN) functions like a person's name, while a [uniform resource locator](http://en.wikipedia.org/wiki/Uniform_resource_locator) (URL) resembles that person's street address. In other words: the URN defines an item's identity, while the URL provides a method for finding it.

## Uniform resource locator (URL)

In [computing](http://en.wikipedia.org/wiki/Information_technology), a **uniform resource locator** (**URL**) is a specific [character string](http://en.wikipedia.org/wiki/Character_string) that constitutes a reference to an [Internet](http://en.wikipedia.org/wiki/Internet) resource.

[](http://en.wikipedia.org/wiki/File:DNS-names-ru.svg)A URL is technically a type of [uniform resource identifier](http://en.wikipedia.org/wiki/Uniform_resource_identifier) (URI) but in many technical documents and verbal discussions URL is often used as a synonym for URI.[[1]](http://en.wikipedia.org/wiki/Url#cite_note-0)

Every URL consists of some of the following: the [scheme name](http://en.wikipedia.org/wiki/URI_scheme) (commonly called protocol), followed by a colon, two slashes,[[note 1]](http://en.wikipedia.org/wiki/Url#cite_note-6) then, depending on scheme, a server name (exp. ftp., www., smtp., etc.) followed by a dot (.) then a [domain name](http://en.wikipedia.org/wiki/Domain_name)[[note 2]](http://en.wikipedia.org/wiki/Url#cite_note-7) (alternatively, [IP address](http://en.wikipedia.org/wiki/IP_address)), a [port number](http://en.wikipedia.org/wiki/Port_number), the path of the resource to be fetched or the program to be run, then, for programs such as [Common Gateway Interface](http://en.wikipedia.org/wiki/Common_Gateway_Interface) (CGI) [scripts](http://en.wikipedia.org/wiki/Script_(computing)), a [query string](http://en.wikipedia.org/wiki/Query_string),[[7]](http://en.wikipedia.org/wiki/Url#cite_note-8)[[8]](http://en.wikipedia.org/wiki/Url#cite_note-parse_url-9) and an optional [fragment identifier](http://en.wikipedia.org/wiki/Fragment_identifier).[9]

## Domain name

A **domain name** is an identification [string](http://en.wikipedia.org/wiki/String_(computer_science)) that defines a realm of administrative autonomy, authority, or control on the [Internet](http://en.wikipedia.org/wiki/Internet). Domain names are formed by the rules and procedures of the [Domain Name System](http://en.wikipedia.org/wiki/Domain_Name_System) (DNS).

Domain names are used in various networking contexts and application-specific naming and addressing purposes. In general, a domain name represents an [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) (IP) resource, such as a personal computer used to access the Internet, a server computer hosting a [web site](http://en.wikipedia.org/wiki/Web_site), or the web site itself or any other service communicated via the Internet.

Domain names are organized in subordinate levels (subdomains) of the [DNS root](http://en.wikipedia.org/wiki/DNS_root) domain, which is nameless. The first-level set of domain names are the [top-level domains](http://en.wikipedia.org/wiki/Top-level_domain) (TLDs), including the [generic top-level domains](http://en.wikipedia.org/wiki/Generic_top-level_domain) (gTLDs), such as the prominent domains [com](http://en.wikipedia.org/wiki/.com), [net](http://en.wikipedia.org/wiki/.net) and [org](http://en.wikipedia.org/wiki/.org), and the [country code top-level domains](http://en.wikipedia.org/wiki/Country_code_top-level_domain) (ccTLDs). Below these top-level domains in the DNS hierarchy are the second-level and third-level domain names that are typically open for reservation by end-users who wish to connect local area networks to the Internet, create other publicly accessible Internet resources or run web sites. The registration of these domain names is usually administered by [domain name registrars](http://en.wikipedia.org/wiki/Domain_name_registrar) who sell their services to the public.

Domain names serve as humanly-memorable names for Internet participants, like computers, networks, and services. A domain name represents an Internet Protocol (IP) resource. Individual Internet host computers use domain names as host identifiers, or hostnames. Hostnames are the leaf labels in the domain name system usually without further subordinate domain name space. Hostnames appear as a component in [Uniform Resource Locators](http://en.wikipedia.org/wiki/Uniform_Resource_Locator) (URLs) for Internet resources such as [web sites](http://en.wikipedia.org/wiki/Web_site) (e.g., en.wikipedia.org).

Domain names are also used as simple identification labels to indicate ownership or control of a resource. Such examples are the realm identifiers used in the [Session Initiation Protocol](http://en.wikipedia.org/wiki/Session_Initiation_Protocol) (SIP), the[DomainKeys](http://en.wikipedia.org/wiki/DomainKeys) used to verify DNS domains in [e-mail](http://en.wikipedia.org/wiki/E-mail) systems, and in many other [Uniform Resource Identifiers](http://en.wikipedia.org/wiki/Uniform_Resource_Identifier) (URIs).

An important function of domain names is to provide easily recognizable and memorizable names to numerically [addressed](http://en.wikipedia.org/wiki/IP_address) Internet resources. This abstraction allows any resource to be moved to a different physical location in the address topology of the network, globally or locally in an [intranet](http://en.wikipedia.org/wiki/Intranet). Such a move usually requires changing the IP address of a resource and the corresponding translation of this IP address to and from its domain name.

Domain names are often referred to simply as *domains* and domain name registrants are frequently referred to as *domain owners*, although domain name registration with a registrar does not confer any legal ownership of the domain name, only an exclusive right of use.

## Domain Name System (DNS)

The **Domain Name System** (**DNS**) is a hierarchical distributed naming system for computers, services, or any resource connected to the [Internet](http://en.wikipedia.org/wiki/Internet) or a [private network](http://en.wikipedia.org/wiki/Private_network). It associates various information with [domain names](http://en.wikipedia.org/wiki/Domain_name) assigned to each of the participating entities. A **Domain Name Service** resolves queries for these names into [IP addresses](http://en.wikipedia.org/wiki/IP_address) for the purpose of locating computer services and devices worldwide. By providing a worldwide, distributed [keyword](http://en.wikipedia.org/wiki/Index_term)-based redirection service, the Domain Name System is an essential component of the functionality of the [Internet](http://en.wikipedia.org/wiki/Internet).

An often-used analogy to explain the Domain Name System is that it serves as the [phone book](http://en.wikipedia.org/wiki/Telephone_directory) for the Internet by translating human-friendly computer [hostnames](http://en.wikipedia.org/wiki/Hostname) into [IP addresses](http://en.wikipedia.org/wiki/IP_address). For example, the domain name [www.example.com](http://en.wikipedia.org/wiki/Example.com) translates to the addresses 192.0.43.10 ([IPv4](http://en.wikipedia.org/wiki/IPv4)) and 2620:0:2d0:200::10 ([IPv6](http://en.wikipedia.org/wiki/IPv6)). Unlike a phone book, however, DNS can be quickly updated and these updates distributed, allowing a service's location on the network to change without affecting the end users, who continue to use the same hostname. Users take advantage of this when they recite meaningful [Uniform Resource Locators](http://en.wikipedia.org/wiki/Uniform_Resource_Locator) (URLs) and [e-mail addresses](http://en.wikipedia.org/wiki/E-mail_address) without having to know how the computer actually locates the services.

The Domain Name System distributes the responsibility of assigning domain names and mapping those names to IP addresses by designating [authoritative name servers](http://en.wikipedia.org/wiki/Authoritative_name_server) for each domain. Authoritative name servers are assigned to be responsible for their particular domains, and in turn can assign other authoritative name servers for their sub-domains. This mechanism has made the DNS distributed and fault tolerant and has helped avoid the need for a single central register to be continually consulted and updated. Additionally, the responsibility for maintaining and updating the master record for the domains is spread among many [domain name registrars](http://en.wikipedia.org/wiki/Domain_name_registrar), who compete for the end-user's, domain-owner's, business. Domains can be moved from registrar to registrar at any time.

The Domain Name System also specifies the technical functionality of this database service. It defines the DNS protocol, a detailed specification of the data structures and communication exchanges used in DNS, as part of the [Internet Protocol Suite](http://en.wikipedia.org/wiki/Internet_Protocol_Suite).

## IP address

[Page semi-protected](http://en.wikipedia.org/wiki/Wikipedia:Protection_policy#semi)

An **Internet Protocol address** (**IP address**) is a numerical label assigned to each device (e.g., computer, printer) participating in a [computer network](http://en.wikipedia.org/wiki/Computer_network) that uses the [Internet Protocol](http://en.wikipedia.org/wiki/Internet_Protocol) for communication.[[1]](http://en.wikipedia.org/wiki/IP_adress#cite_note-rfc760-0) An IP address serves two principal functions: host or network interface [identification](http://en.wikipedia.org/wiki/Identification_(information)) and location [addressing](http://en.wikipedia.org/wiki/Logical_address). Its role has been characterized as follows: "*A*[*name*](http://en.wikipedia.org/wiki/Hostname)*indicates what we seek. An address indicates where it is. A route indicates how to get there.*"[[2]](http://en.wikipedia.org/wiki/IP_adress#cite_note-rfc791-1)

IP addresses are [binary numbers](http://en.wikipedia.org/wiki/Binary_number), but they are usually stored in text files and displayed in [human-readable](http://en.wikipedia.org/wiki/Human-readable) notations, such as 172.16.254.1 (for IPv4), and 2001:db8:0:1234:0:567:8:1 (for IPv6).

## HyperText Markup Language (HTML)

**HyperText Markup Language** (**HTML**) is the main [markup language](http://en.wikipedia.org/wiki/Markup_language) for displaying web pages and other information that can be displayed in a web browser.

HTML is written in the form of [HTML elements](http://en.wikipedia.org/wiki/HTML_element) consisting of *tags* enclosed in [angle brackets](http://en.wikipedia.org/wiki/Angle_brackets) (like <html>), within the web page content. HTML tags most commonly come in pairs like <h1> and </h1>, although some tags, known as *empty elements*, are unpaired, for example <img>. The first tag in a pair is the *start tag*, the second tag is the *end tag* (they are also called *opening tags* and *closing tags*). In between these tags web designers can add text, tags, comments and other types of text-based content.

The purpose of a [web browser](http://en.wikipedia.org/wiki/Web_browser) is to read HTML documents and compose them into visible or audible web pages. The browser does not display the HTML tags, but uses the tags to interpret the content of the page.

HTML elements form the building blocks of all websites. HTML allows [images and objects](http://en.wikipedia.org/wiki/Img_(HTML_element)) to be embedded and can be used to create [interactive forms](http://en.wikipedia.org/wiki/Fieldset). It provides a means to create [structured documents](http://en.wikipedia.org/wiki/Structured_document) by denoting structural [semantics](http://en.wikipedia.org/wiki/Semantic) for text such as headings, paragraphs, lists, links, quotes and other items. It can embed [scripts](http://en.wikipedia.org/wiki/Scripting_language) in languages such as [JavaScript](http://en.wikipedia.org/wiki/JavaScript) which affect the behavior of HTML webpages.

Web browsers can also refer to [Cascading Style Sheets](http://en.wikipedia.org/wiki/Cascading_Style_Sheets) (CSS) to define the appearance and layout of text and other material. The [W3C](http://en.wikipedia.org/wiki/W3C), maintainer of both the HTML and the CSS standards, encourages the use of CSS over explicitly presentational HTML markup.[[1]](http://en.wikipedia.org/wiki/Html#cite_note-deprecated-0)

## Internet Communication

## E-mail

**Electronic mail**, commonly known as **email** or **e-mail** is an important communications service available on the Internet.

Email, is a method of exchanging digital messages from an author to one or more recipients. Modern email operates across the [Internet](http://en.wikipedia.org/wiki/Internet) or other [computer networks](http://en.wikipedia.org/wiki/Computer_network). Some early email systems required that the author and the recipient both be [online](http://en.wikipedia.org/wiki/Online_and_offline) at the same time, in common with [instant messaging](http://en.wikipedia.org/wiki/Instant_messaging). Today's email systems are based on a [store-and-forward](http://en.wikipedia.org/wiki/Store-and-forward) model. Email [servers](http://en.wikipedia.org/wiki/Computer_server) accept, forward, deliver and store messages. Neither the users nor their computers are required to be online simultaneously; they need connect only briefly, typically to an [email server](http://en.wikipedia.org/wiki/E-mail_server), for as long as it takes to send or receive messages.

An email message consists of three components, the message *envelope*, the message *header*, and the message *body*. The message header contains control information, including, minimally, an originator's [email address](http://en.wikipedia.org/wiki/Email_address) and one or more recipient addresses. Usually descriptive information is also added, such as a subject header field and a message submission date/time stamp. It is structured into [fields](http://en.wikipedia.org/wiki/Field_(computer_science)) such as From, To, CC, Subject, Date, and other information about the email. *Body* represent the basic content, as unstructured text; sometimes containing a [signature block](http://en.wikipedia.org/wiki/Signature_block) at the end. This is exactly the same as the body of a regular letter.

The header is separated from the body by a blank line.

In the process of transporting email messages between systems, SMTP communicates delivery parameters using a message *envelope* separate from the message (header and body) itself.

## E-mail address

An **email address** identifies an [email box](http://en.wikipedia.org/wiki/Email_box) to which [email messages](http://en.wikipedia.org/wiki/Email) are delivered. The general format of an email address is jsmith@example.org. It consists of two parts: the part before the [@](http://en.wikipedia.org/wiki/@) sign is the *local-part* of the address, often the [username](http://en.wikipedia.org/wiki/Username) of the recipient (jsmith), and the part after the @ sign is a *domain name* to which the email message will be sent (example.org).

It is not clear from the email address [domain name](http://en.wikipedia.org/wiki/Domain_name) what is the actual destination (the mailbox host) of an email. A [mail server](http://en.wikipedia.org/wiki/Mail_server) will use the [Domain Name System](http://en.wikipedia.org/wiki/Domain_Name_System), which is a distributed database, to find the [IP address](http://en.wikipedia.org/wiki/IP_address) of the host of the domain. The server queries the DNS for any mail exchanger records ([MX records](http://en.wikipedia.org/wiki/MX_record)) to find the [IP address](http://en.wikipedia.org/wiki/IP_address) of a designated [mail transfer agent](http://en.wikipedia.org/wiki/Mail_transfer_agent) (MTA) for that address. That way, the organization holding the delegation for a given domain —the *mailbox provider*— can define which are the target hosts for all email destined to its domain. The mail exchanger does not need to be located in the domain of the destination mail box, it must simply accept mail for the domain. The target hosts are configured with a mechanism to deliver mail to all destination mail boxes. If no MX servers are configured, a mail server queries the [A record](http://en.wikipedia.org/wiki/A_record) for the domain. There is a chance that this server will accept email for this domain.

The local-part of an email address has no significance to intermediate mail relay systems other than the final mailbox host. For example, it must not be assumed to be case-insensitive. The same mailbox can be set up to receive emails from multiple email addresses. Conversely, a single email address may be an alias and have a distribution function to many mailboxes. [Email aliases](http://en.wikipedia.org/wiki/Email_alias), [electronic mailing lists](http://en.wikipedia.org/wiki/Electronic_mailing_list), [sub-addressing](http://en.wikipedia.org/wiki/Email_address#Address_tags), and [catch-all](http://en.wikipedia.org/wiki/Catch-all_(Mail)) addresses, the latter being mailboxes that receive messages irrespectively of the local part, are common patterns for achieving such results.

The addresses found in the header fields of an email message are not the ones used by SMTP servers to deliver the message. Servers use the so-called *message envelope* to route mail. While envelope and header addresses may be equal, forged email addresses are often seen in [spam](http://en.wikipedia.org/wiki/Email_spam), [phishing](http://en.wikipedia.org/wiki/Phishing), and many other internet-based scams. This has led to several initiatives which aim to make such forgeries easier to spot.

## Spamming and computer viruses

The usefulness of email is being threatened by four phenomena: [email bombardment](http://en.wikipedia.org/wiki/Email_bomb), [spamming](http://en.wikipedia.org/wiki/E-mail_spam), [phishing](http://en.wikipedia.org/wiki/Phishing), and [email worms](http://en.wikipedia.org/wiki/Computer_worm).

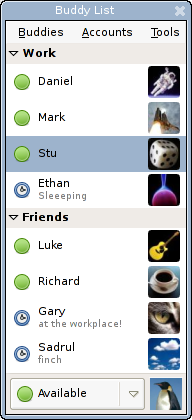
**Email spam**, also known as **junk email** or **unsolicited bulk email** (**UBE**), is a subset of [electronic spam](http://en.wikipedia.org/wiki/Spam_(electronic)) involving nearly identical messages sent to numerous recipients by [email](http://en.wikipedia.org/wiki/Email). Definitions of spam usually include the aspects that email is unsolicited and sent in bulk.[[1]](http://en.wikipedia.org/wiki/Email_spam#cite_note-spamfaq-0)[[2]](http://en.wikipedia.org/wiki/Email_spam#cite_note-rhyolite-1)[[3]](http://en.wikipedia.org/wiki/Email_spam#cite_note-spamcop-2)[[4]](http://en.wikipedia.org/wiki/Email_spam#cite_note-abuse-3)[[5]](http://en.wikipedia.org/wiki/Email_spam#cite_note-monkeys-4) One subset of UBE is *UCE* (unsolicited commercial email). The opposite of "spam", email which one wants, is called "ham", usually when referring to a message's automated analysis (such as Bayesian filtering).[[6]](http://en.wikipedia.org/wiki/Email_spam#cite_note-5)

Email spam has steadily grown since the early 1990s. [Botnets](http://en.wikipedia.org/wiki/Botnet), networks of [virus](http://en.wikipedia.org/wiki/Computer_virus)-infected computers, are used to send about 80% of spam. Since the expense of the spam is borne mostly by the recipient,[[7]](http://en.wikipedia.org/wiki/Email_spam#cite_note-spam-costs-6) it is effectively [postage due](http://en.wikipedia.org/wiki/Postage_due) advertising.

Spammers collect email addresses from chatrooms, websites, customer lists, newsgroups, and viruses which harvest users' address books, and are sold to other spammers. They also use a practice known as "email appending" or "epending" in which they use known information about their target (such as a postal address) to search for the target's email address. Much of spam is sent to invalid email addresses.

**Email worms** use email as a way of replicating themselves into vulnerable computers. Although the [first email worm](http://en.wikipedia.org/wiki/Morris_(computer_worm)) affected [UNIX](http://en.wikipedia.org/wiki/UNIX) computers, the problem is most common today on the more popular [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows) operating system.

The combination of spam and worm programs results in users receiving a constant drizzle of junk email, which reduces the usefulness of email as a practical tool.



## Instant messaging

**Instant messaging** (IM) is a form of [communication](http://en.wikipedia.org/wiki/Communication) over the [Internet](http://en.wikipedia.org/wiki/Internet) that offers an instantaneous transmission of [text-based](http://en.wikipedia.org/wiki/Text-based) messages from sender to receiver. In [push mode](http://en.wikipedia.org/wiki/Push_technology) between two or more people using personal computers or other devices, along with shared [clients](http://en.wikipedia.org/wiki/Client_(computing)), instant messaging basically offers [real-time](http://en.wikipedia.org/wiki/Real-time_text) [direct](http://en.wikipedia.org/wiki/Peer-to-peer)[written language](http://en.wikipedia.org/wiki/Written_language)-based [online chat](http://en.wikipedia.org/wiki/Online_chat). The user's text is conveyed over a [network](http://en.wikipedia.org/wiki/Computer_network), such as the Internet. It may address [point-to-point](http://en.wikipedia.org/wiki/Point-to-point_(telecommunications)) communications as well as [multicast](http://en.wikipedia.org/wiki/Multicast) communications from one sender to many receivers. More advanced instant messaging allows enhanced modes of communication, such as live voice or [video calling](http://en.wikipedia.org/wiki/Videophone), [video chat](http://en.wikipedia.org/wiki/Video_chat) and inclusion of [hyperlinks](http://en.wikipedia.org/wiki/Hyperlink) to media.

## Mobile instant messaging

[Mobile instant messaging](http://en.wikipedia.org/wiki/Mobile_instant_messaging) (MIM) is the technology that allows instant messaging services to be accessed from -a portable device, ranging from standard mobile phones, to [smartphones](http://en.wikipedia.org/wiki/Smartphone) (e.g. devices using operating systems such as [Android](http://en.wikipedia.org/wiki/Android_(operating_system)), [Blackberry OS](http://en.wikipedia.org/wiki/Blackberry_OS), [iOS](http://en.wikipedia.org/wiki/IOS_(Apple)), [Symbian OS](http://en.wikipedia.org/wiki/Symbian_OS), [Windows Phone](http://en.wikipedia.org/wiki/Windows_Phone), *et al.*). It is done two ways:

* *Embedded clients* – tailored IM client for every specific device.
* *Clientless platform* – a browser-based application that does not need to download any software to the handset, and which enables all users and all devices from any network to connect to their Internet IM service, ideally. In practice, browser limits can pose problems.

## Online chat

**Online chat** may refer to any kind of [communication](http://en.wikipedia.org/wiki/Communication) over the [Internet](http://en.wikipedia.org/wiki/Internet), that offers a [real time](http://en.wikipedia.org/wiki/Real-time_text) [direct](http://en.wikipedia.org/wiki/Peer-to-peer) transmission of [text-based](http://en.wikipedia.org/wiki/Text-based) messages from sender to receiver, hence the delay for visual access to the sent message shall not hamper the flow of communications in any of the directions. Online chat may address [point-to-point](http://en.wikipedia.org/wiki/Point-to-point_(telecommunications)) communications as well as [multicast](http://en.wikipedia.org/wiki/Multicast) communications from one sender to many receivers and voice and [video chat](http://en.wikipedia.org/wiki/Video_chat) or may be a feature of a [Web conferencing](http://en.wikipedia.org/wiki/Web_conferencing) service.

***Software and protocols***

The following are common chat programs and protocols:

|  |  |
| --- | --- |
| * [AOL Instant Messenger](http://en.wikipedia.org/wiki/AOL_Instant_Messenger) (AIM) * [Camfrog](http://en.wikipedia.org/wiki/Camfrog) * [Campfire](http://en.wikipedia.org/wiki/Campfire_(software)) * [Gadu-Gadu](http://en.wikipedia.org/wiki/Gadu-Gadu) * [Google Talk](http://en.wikipedia.org/wiki/Google_Talk) * [iChat](http://en.wikipedia.org/wiki/IChat) * [ICQ](http://en.wikipedia.org/wiki/ICQ) (OSCAR) * [Internet Relay Chat](http://en.wikipedia.org/wiki/Internet_Relay_Chat) (IRC) * [MUD](http://en.wikipedia.org/wiki/MUD) * [Paltalk](http://en.wikipedia.org/wiki/Paltalk) * [Yahoo! Messenger](http://en.wikipedia.org/wiki/Yahoo!_Messenger) | * [QQ](http://en.wikipedia.org/wiki/Tencent_QQ) * [ActivEngage](http://en.wikipedia.org/w/index.php?title=ActivEngage&action=edit&redlink=1) * [SILC](http://en.wikipedia.org/wiki/SILC_(protocol)) * [Skype](http://en.wikipedia.org/wiki/Skype) * [Talk](http://en.wikipedia.org/wiki/Talk_(software)) * [Talker](http://en.wikipedia.org/wiki/Talker) * [TeamSpeak](http://en.wikipedia.org/wiki/TeamSpeak) (TS) * [WhatsApp](http://en.wikipedia.org/wiki/WhatsApp) * [Windows Live Messenger](http://en.wikipedia.org/wiki/Windows_Live_Messenger) * [XMPP](http://en.wikipedia.org/wiki/Extensible_Messaging_and_Presence_Protocol) |

Chat programs supporting multiple protocols:

* [Adium](http://en.wikipedia.org/wiki/Adium)
* [Google Talk](http://en.wikipedia.org/wiki/Google_Talk)
* [IMVU](http://en.wikipedia.org/wiki/IMVU)
* [Kopete](http://en.wikipedia.org/wiki/Kopete)
* [IBM Sametime](http://en.wikipedia.org/wiki/IBM_Lotus_Sametime)
* [Miranda IM](http://en.wikipedia.org/wiki/Miranda_IM)
* [Pidgin](http://en.wikipedia.org/wiki/Pidgin_(software))
* [Quiet Internet Pager](http://en.wikipedia.org/wiki/Quiet_Internet_Pager)
* [Trillian](http://en.wikipedia.org/wiki/Trillian_(software))

Web sites with browser-based chat services (also see [web chat](http://en.wikipedia.org/wiki/Web_chat)):

* [eBuddy](http://en.wikipedia.org/wiki/EBuddy)
* [Facebook](http://en.wikipedia.org/wiki/Facebook)
* [FilmOn](http://en.wikipedia.org/wiki/FilmOn)
* [Gmail](http://en.wikipedia.org/wiki/Gmail)
* [MeBeam](http://en.wikipedia.org/wiki/MeBeam)
* [Meebo](http://en.wikipedia.org/wiki/Meebo)
* [Mibbit](http://en.wikipedia.org/wiki/Mibbit)
* [Omegle](http://en.wikipedia.org/wiki/Omegle)
* [Tinychat](http://en.wikipedia.org/wiki/Tinychat)
* [Trillian](http://en.wikipedia.org/wiki/Trillian_(software))
* [Userplane](http://en.wikipedia.org/wiki/Userplane)
* [Convore](http://en.wikipedia.org/wiki/Convore)
* [Woo Media](http://en.wikipedia.org/wiki/Woo_Media)
* [Google+](http://en.wikipedia.org/wiki/Google%2B)

## Internet vulnerabilities

## Web threat

A **web threat** is any threat that uses the internet to facilitate [cybercrime](http://en.wikipedia.org/wiki/Cybercrime). Web threats use multiple types of malware and fraud, all of which utilize HTTP or HTTPS protocols, but may also employ other protocols and components, such as links in email or IM, or malware attachments or on servers that access the Web. They benefit cybercriminals by stealing information for subsequent sale and help absorb infected PCs into [botnets](http://en.wikipedia.org/wiki/Botnets).

Web threats pose a broad range of risks, including financial damages, identity theft, loss of confidential information/data, theft of network resources, damaged brand/personal reputation, and erosion of consumer confidence in e-commerce and online banking.

It is a type of [threat](http://en.wikipedia.org/wiki/Threat_(computer)) related to information technology (IT). The [IT risk](http://en.wikipedia.org/wiki/IT_risk), i.e. risk affecting has gained and increasing impact on society due to the spread of IT processes. [[1]](http://en.wikipedia.org/wiki/Web_threats#cite_note-0) [[2]](http://en.wikipedia.org/wiki/Web_threats#cite_note-1) [[3]](http://en.wikipedia.org/wiki/Web_threats#cite_note-2)

**Delivery methods**

Web threats can be divided into two primary categories, based on delivery method – push and pull.[[4]](http://en.wikipedia.org/wiki/Web_threats#cite_note-3)

Push-based threats use [spam](http://en.wikipedia.org/wiki/E-mail_spam), [phishing](http://en.wikipedia.org/wiki/Phishing), or other fraudulent means to lure a user to a malicious (often spoofed) website which then collects information and/or injects [malware](http://en.wikipedia.org/wiki/Malware). Push attacks use phishing, [DNS poisoning](http://en.wikipedia.org/wiki/DNS_poisoning) (or [pharming](http://en.wikipedia.org/wiki/Pharming)), and other means to appear to originate from a trusted source. Precisely-targeted push-based web threats are often referred to as spear phishing to reflect the focus of their data gathering attack. Spear phishing typically targets specific individuals and groups for financial gain. In other push-based web threats, malware authors use social engineering such as enticing subject lines that reference holidays, popular personalities, sports, pornography, world events and other hot topics to persuade recipients to open the email and follow links to malicious websites or open attachments with malware that accesses the Web.

Pull-based web threats are often referred to as “[drive-by](http://en.wikipedia.org/wiki/Drive-by_download)” threats by experts (and more commonly as “drive-by downloads” by journalists and the general public), since they can affect any website visitor. Cybercriminals infect legitimate websites, which unknowingly transmit malware to visitors or alter search results to take users to malicious websites. Upon loading the page, the user’s browser passively runs a malware downloader in a hidden HTML frame (IFRAME) without any user interaction.

**Growth of web threats**

“And if today’s malware runs mostly runs on Windows because it’s the commonest executable platform, tomorrow’s will likely run on the Web, for the very same reason. Because, like it or not, the Web is already a huge executable platform, and we should start thinking of it this way, from a security perspective.” – Giorgio Maone [[5]](http://en.wikipedia.org/wiki/Web_threats#cite_note-4)

The growth of web threats is a result of the popularity of the Web – a relatively unprotected, widely and consistently used medium that is crucial to business productivity, online banking, and e-commerce as well as the everyday lives of people worldwide. The appeal of Web 2.0 applications and websites increases the vulnerability of the Web. Most Web 2.0 applications make use of AJAX, a group of [web development](http://en.wikipedia.org/wiki/Web_development) programming tools used for creating interactive [web applications](http://en.wikipedia.org/wiki/Web_applications) or [rich Internet applications](http://en.wikipedia.org/wiki/Rich_Internet_applications). While users benefit from greater interactivity and more dynamic websites, they are also exposed to the greater security risks inherent in browser client processing.[[6]](http://en.wikipedia.org/wiki/Web_threats#cite_note-5)

**Prevention and detection**

Conventional approaches have failed to fully protect consumers and businesses from web threats. The most viable approach is to implement multi-layered protection—protection in the cloud, at the Internet gateway, across network servers and on the client.

## Computer crime

**Computer crime** refers to any crime that involves a [computer](http://en.wikipedia.org/wiki/Computer) and a [network](http://en.wikipedia.org/wiki/Computer_network).[[1]](http://en.wikipedia.org/wiki/Cybercrime#cite_note-moore-0) The computer may have been used in the commission of a crime, or it may be the target.[[2]](http://en.wikipedia.org/wiki/Cybercrime#cite_note-kruse-1)

**Netcrime** refers to criminal exploitation of the [Internet](http://en.wikipedia.org/wiki/Internet).[[3]](http://en.wikipedia.org/wiki/Cybercrime#cite_note-2) Cybercrimes are defined as: "Offences that are committed against individuals or groups of individuals with a criminal motive to intentionally harm the reputation of the victim or cause physical or mental harm to the victim directly or indirectly, using modern telecommunication networks such as Internet (Chat rooms, emails, notice boards and groups) and mobile phones (SMS/MMS)".[[4]](http://en.wikipedia.org/wiki/Cybercrime#cite_note-3)  Issues surrounding this type of crime have become high-profile, particularly those surrounding [cracking](http://en.wikipedia.org/wiki/Hacker_(computer_security)), [copyright infringement](http://en.wikipedia.org/wiki/Copyright_infringement), [child pornography](http://en.wikipedia.org/wiki/Child_pornography), and [child grooming](http://en.wikipedia.org/wiki/Child_grooming).

## Hacking

[Page move-protected](http://en.wikipedia.org/wiki/Wikipedia:Protection_policy#move)

**Hacking** means finding out weaknesses in a computer or computer network and exploiting them, though the term can also refer to someone with an advanced understanding of computers and computer networks.[[1]](http://en.wikipedia.org/wiki/Hacker_(computer_security)#cite_note-0) Hackers may be motivated by a multitude of reasons, such as profit, protest, or challenge.[[2]](http://en.wikipedia.org/wiki/Hacker_(computer_security)#cite_note-crackdown-1) The subculture that has evolved around hackers is often referred to as the computer underground but it is now an open [community](http://en.wikipedia.org/wiki/Community).[[3]](http://en.wikipedia.org/wiki/Hacker_(computer_security)#cite_note-2)

## Cyber spying

**Cyber spying** or **Cyber**[**espionage**](http://en.wikipedia.org/wiki/Espionage) is the act or practice of obtaining secrets without the permission of the holder of the information (personal, sensitive, proprietary or of classified nature), from individuals, competitors, rivals, groups, governments and enemies for personal, economic, political or military advantage using methods on the Internet, networks or individual computers through the use of [cracking](http://en.wikipedia.org/wiki/Hacker_(computer_security)) techniques and [malicious software](http://en.wikipedia.org/wiki/Malicious_software) including [Trojan horses](http://en.wikipedia.org/wiki/Trojan_horse_(computing)) and [spyware](http://en.wikipedia.org/wiki/Spyware). It may wholly be perpetrated online from computer desks of professionals on bases in far away countries or may involve infiltration at home by computer trained conventional [spies](http://en.wikipedia.org/wiki/Espionage) and [moles](http://en.wikipedia.org/wiki/Mole_(espionage)) or in other cases may be the [criminal](http://en.wikipedia.org/wiki/Criminal) handiwork of [amateur](http://en.wikipedia.org/wiki/Amateur) malicious hackers and [software programmers](http://en.wikipedia.org/wiki/Software_programmer).

Cyber spying typically involves the use of such access to secrets and classified information or control of individual computers or whole networks for a [strategic](http://en.wikipedia.org/wiki/Strategy) advantage and for [psychological](http://en.wikipedia.org/wiki/Psychological_subversion), [political](http://en.wikipedia.org/wiki/Subversion_(politics)) and physical subversion activities and [sabotage](http://en.wikipedia.org/wiki/Sabotage). More recently, cyber spying involves analysis of public activity on social networking sites like [Facebook](http://en.wikipedia.org/wiki/Facebook) and [Twitter](http://en.wikipedia.org/wiki/Twitter).[[1]](http://en.wikipedia.org/wiki/Cyber_spying#cite_note-0)

Such operations, like non-cyber espionage, are typically illegal in the victim country while fully supported by the highest level of government in the aggressor country. The ethical situation likewise depends on one's viewpoint, particularly one's opinion of the governments involved.

# VII Electronic Business (eBusiness)

**Electronic business**, commonly referred to as "**eBusiness**" or "**e-business**", or an internet business, may be defined as the application of information and communication technologies ([ICT](http://en.wikipedia.org/wiki/Information_and_communication_technologies)) in support of all the activities of business. Commerce constitutes the exchange of products and services between businesses, groups and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of ICT to enable the external activities and relationships of the business with individuals, groups and other businesses.[[1]](http://en.wikipedia.org/wiki/E-business#cite_note-0)

## The principle of e-Business, internet as new and exciting channel for business

The term "e-business" was coined by [IBM](http://en.wikipedia.org/wiki/IBM)'s marketing and Internet teams in 1996.[[2]](http://en.wikipedia.org/wiki/E-business#cite_note-1)[[3]](http://en.wikipedia.org/wiki/E-business#cite_note-2)

Electronic business methods enable companies to link their internal and external data processing systems more efficiently and flexibly, to work more closely with suppliers and partners, and to better satisfy the needs and expectations of their customers.

In practice, e-business is more than just [e-commerce](http://en.wikipedia.org/wiki/E-commerce). While e-business refers to more strategic focus with an emphasis on the functions that occur using electronic capabilities, [e-commerce](http://en.wikipedia.org/wiki/E-commerce) is a subset of an overall e-business strategy. E-commerce seeks to add revenue streams using the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) or the [Internet](http://en.wikipedia.org/wiki/Internet) to build and enhance relationships with clients and partners and to improve efficiency using the [Empty Vessel](http://en.wikipedia.org/wiki/Empty_Vessel) strategy. Often, e-commerce involves the application of [knowledge management](http://en.wikipedia.org/wiki/Knowledge_management) systems.

E-business involves business processes spanning the entire [value chain](http://en.wikipedia.org/wiki/Value_chain): electronic purchasing and [supply chain management](http://en.wikipedia.org/wiki/Supply_chain_management), processing orders electronically, handling customer service, and cooperating with business partners. Special technical standards for e-business facilitate the exchange of data between companies. E-business software solutions allow the integration of intra and inter firm business processes. E-business can be conducted using the [Web](http://en.wikipedia.org/wiki/World_Wide_Web), the Internet, [intranets](http://en.wikipedia.org/wiki/Intranet), [extranets](http://en.wikipedia.org/wiki/Extranet), or some combination of these.

Basically, electronic commerce (EC) is the process of buying, transferring, or exchanging products, services, and/or information via computer networks, including the internet. EC can also be beneficial from many perspectives including business process, service, learning, collaborative, community. EC is often confused with e-business.

**Subsets**

Applications can be divided into three categories:

1. Internal business systems:
   * [customer relationship management](http://en.wikipedia.org/wiki/Customer_relationship_management)
   * [enterprise resource planning](http://en.wikipedia.org/wiki/Enterprise_resource_planning)
   * [document management systems](http://en.wikipedia.org/wiki/Document_management_system)
   * [human resources management](http://en.wikipedia.org/wiki/Human_resources_management)
2. Enterprise communication and collaboration:
   * [VoIP](http://en.wikipedia.org/wiki/VoIP)
   * [content management system](http://en.wikipedia.org/wiki/Content_management_system)
   * [e-mail](http://en.wikipedia.org/wiki/E-mail)
   * [voice mail](http://en.wikipedia.org/wiki/Voice_mail)
   * [Web conferencing](http://en.wikipedia.org/wiki/Web_conferencing)
   * [Digital work flows](http://en.wikipedia.org/w/index.php?title=Digital_work_flows&action=edit&redlink=1) (or [business process management](http://en.wikipedia.org/wiki/Business_process_management))
3. [electronic commerce](http://en.wikipedia.org/wiki/Electronic_commerce) - [business-to-business electronic commerce](http://en.wikipedia.org/wiki/Business-to-business_electronic_commerce) (B2B) or [business-to-consumer electronic commerce](http://en.wikipedia.org/w/index.php?title=Business-to-consumer_electronic_commerce&action=edit&redlink=1) (B2C):
   * [internet shop](http://en.wikipedia.org/wiki/Internet_shop)
   * [supply chain management](http://en.wikipedia.org/wiki/Supply_chain_management)
   * [online marketing](http://en.wikipedia.org/wiki/Online_marketing)
   * [offline marketing](http://en.wikipedia.org/w/index.php?title=Offline_marketing&action=edit&redlink=1)

**Models**

When organizations go online, they have to decide which e-business models best suit their goals.[[4]](http://en.wikipedia.org/wiki/E-business#cite_note-3) A [business model](http://en.wikipedia.org/wiki/Business_model) is defined as the organization of product, [service](http://en.wikipedia.org/wiki/Service_(economics)) and information flows, and the source of revenues and benefits for [suppliers](http://en.wikipedia.org/wiki/Suppliers) and [customers](http://en.wikipedia.org/wiki/Customers). The concept of e-business model is the same but used in the online presence. The following is a list of the currently most adopted e-business models such as:

* [E-shops](http://en.wikipedia.org/wiki/Online_shop)
* [E-commerce](http://en.wikipedia.org/wiki/Electronic_commerce)
* [E-procurement](http://en.wikipedia.org/wiki/E-procurement)
* [E-malls](http://en.wikipedia.org/w/index.php?title=E-malls&action=edit&redlink=1)
* [E-auctions](http://en.wikipedia.org/wiki/Reverse_auction)
* [Virtual Communities](http://en.wikipedia.org/wiki/Virtual_Communities)
* [Collaboration Platforms](http://en.wikipedia.org/wiki/Collaboration_platform)
* [Third-party Marketplaces](http://en.wikipedia.org/wiki/Amazon_Marketplace)
* [Value-chain Integrators](http://en.wikipedia.org/w/index.php?title=Value-chain_Integrators&action=edit&redlink=1)
* [Value-chain Service Providers](http://en.wikipedia.org/wiki/Virtual_Value_Chain)
* [Information Brokerage](http://en.wikipedia.org/wiki/Information_Brokerage)
* [Telecommunication](http://en.wikipedia.org/wiki/Telecommunication)
* [Customer relationship](http://en.wikipedia.org/w/index.php?title=Customer_relationship&action=edit&redlink=1)

## Classification by provider and consumer

Roughly dividing the world into providers/producers and consumers/clients one can classify e-businesses into the following categories:

* [business-to-business](http://en.wikipedia.org/wiki/Business-to-business) (B2B)
* [business-to-consumer](http://en.wikipedia.org/wiki/Business-to-consumer) (B2C)
* [business-to-employee](http://en.wikipedia.org/wiki/Business-to-employee) (B2E)
* [business-to-government](http://en.wikipedia.org/wiki/Business-to-government) (B2G)
* [government-to-business](http://en.wikipedia.org/wiki/Government-to-business) (G2B)
* [government-to-government](http://en.wikipedia.org/wiki/Government-to-government) (G2G)
* [government-to-citizen](http://en.wikipedia.org/wiki/Government-to-citizen) (G2C)
* [consumer-to-consumer](http://en.wikipedia.org/wiki/Consumer-to-consumer) (C2C)
* [consumer-to-business](http://en.wikipedia.org/wiki/Consumer-to-business) (C2B)

## Electronic Business Security

E-Business systems naturally have greater security risks than traditional business systems, therefore it is important for e-business systems to be fully protected against these risks. A far greater number of people have access to e-businesses through the internet than would have access to a traditional business. Customers, suppliers, employees, and numerous other people use any particular e-business system daily and expect their confidential information to stay secure. Hackers are one of the great threats to the security of e-businesses. Some common security concerns for e-Businesses include keeping business and customer information private and confidential, authenticity of data, and data integrity. Some of the methods of protecting e-business security and keeping information secure include physical security measures as well as data storage, data transmission, anti-virus software, firewalls, and encryption to list a few.[[5]](http://en.wikipedia.org/wiki/E-business#cite_note-Pitts-4)[[6]](http://en.wikipedia.org/wiki/E-business#cite_note-canada-5)

## Digital economy

A **Digital Economy** refers to an economy that is based on digital technologies (computers, communication networks, software and other related technologies. The digital economy is also sometimes called the *Internet Economy*, the *New Economy*, or *Web Economy*.

The concept of a digital economy emerged in the last decade of the 20th century. [Nicholas Negroponte](http://en.wikipedia.org/wiki/Nicholas_Negroponte) (1995) used a metaphor of shifting from processing atoms to processing bits. He discussed the disadvantages of the former (e.g., mass, materials, transport) and advantages of the latter (e.g., weightlessness, virtual, instant global movement). In this new economy, digital networking and communication infrastructures provide a global platform over which people and organizations devise strategies, interact, communicate, collaborate and search for information. For example:

* A vast array of digitizable products - databases, news and information, books, magazines, etc which are delivered over the digital infrastructure anytime, anywhere in the world.

## Digital economy in eGovernment

With growing population and resource mobilisation, digital economy is not limited to business trading and services only but, it encompasses every aspect of life from health to education and from business to banking. Further while everything is happening on digital medium then why not communication with government. eGovernment is already playing its part in this digital economy by providing eservices through various ministry/department to its eCitizen.

## The principle of e-Commerce

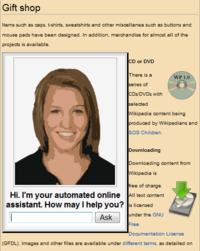
**Electronic commerce**, commonly known as **e-commerce** or **e-comm**, refers to the buying and selling of [products](http://en.wikipedia.org/wiki/Product_(business)) or [services](http://en.wikipedia.org/wiki/Service_(economics)) over electronic systems such as the [Internet](http://en.wikipedia.org/wiki/Internet) and other [computer networks](http://en.wikipedia.org/wiki/Computer_network). Electronic commerce draws on such technologies as [electronic funds transfer](http://en.wikipedia.org/wiki/Electronic_funds_transfer), [supply chain management](http://en.wikipedia.org/wiki/Supply_chain_management), [Internet marketing](http://en.wikipedia.org/wiki/Internet_marketing), [online transaction processing](http://en.wikipedia.org/wiki/Online_transaction_processing), [electronic data interchange](http://en.wikipedia.org/wiki/Electronic_data_interchange) (EDI),[inventory management](http://en.wikipedia.org/wiki/Inventory_management) systems, and automated data collection systems. Modern electronic commerce typically uses the [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) at least at one point in the transaction's life-cycle, although it may encompass a wider range of technologies such as [e-mail](http://en.wikipedia.org/wiki/E-mail), mobile devices and telephones as well.

Electronic commerce is generally considered to be the sales aspect of [e-business](http://en.wikipedia.org/wiki/E-business). It also consists of the exchange of data to facilitate the financing and payment aspects of business transactions.

E-commerce can be divided into:

* E-tailing or "virtual storefronts" on Web sites with online catalogs, sometimes gathered into a "virtual mall"
* The gathering and use of demographic data through Web contacts
* Electronic Data Interchange (EDI), the business-to-business exchange of data
* E-mail and fax and their use as media for reaching prospects and established customers (for example, with newsletters)
* Business-to-business buying and selling
* The security of business transactions

**Business applications**

[](http://en.wikipedia.org/wiki/File:Automated_online_assistant.png)An example of an [automated online assistant](http://en.wikipedia.org/wiki/Automated_online_assistant) on a merchandising website. Some common applications related to electronic commerce are the following:

* [Document automation](http://en.wikipedia.org/wiki/Document_automation) in [supply chain](http://en.wikipedia.org/wiki/Supply_chain) and [logistics](http://en.wikipedia.org/wiki/Logistics)
* Domestic and international [payment systems](http://en.wikipedia.org/wiki/Payment_system)
* [Enterprise content management](http://en.wikipedia.org/wiki/Enterprise_content_management)
* [Group buying](http://en.wikipedia.org/wiki/Group_buying)
* [Automated online assistants](http://en.wikipedia.org/wiki/Automated_online_assistant)
* [Instant messaging](http://en.wikipedia.org/wiki/Instant_messaging)
* [Newsgroups](http://en.wikipedia.org/wiki/Newsgroups)
* [Online shopping](http://en.wikipedia.org/wiki/Online_shopping) and order tracking
* [Online banking](http://en.wikipedia.org/wiki/Online_banking)
* [Online office suites](http://en.wikipedia.org/wiki/Online_office_suite)
* [Shopping cart software](http://en.wikipedia.org/wiki/Shopping_cart_software)
* [Teleconferencing](http://en.wikipedia.org/wiki/Teleconferencing)
* [Electronic tickets](http://en.wikipedia.org/wiki/Electronic_ticket)

**Global trends**

Business models across the world continue to change drastically with the advent of e-commerce and this change is not just restricted to USA. Other countries are also contributing to the growth of e-commerce. For example, the United Kingdom has the biggest e-commerce market in the world when measured by the amount spent per capita, even higher than the USA. The [internet economy](http://en.wikipedia.org/wiki/Internet_economy) in UK is likely to grow by 10% between 2010 to 2015. This has led to changing dynamics for the advertising industry [[23]](http://en.wikipedia.org/wiki/Electronic_commerce#cite_note-22)

Amongst emerging economies, China's e-commerce presence continues to expand. With 384 million internet users, China's online shopping sales rose to $36.6 billion in 2009 and one of the reasons behind the huge growth has been the improved trust level for shoppers. The Chinese retailers have been able to help consumers feel more comfortable shopping online.[[24]](http://en.wikipedia.org/wiki/Electronic_commerce#cite_note-23) eCommerce is also expanding across the Middle East. Having recorded the world’s fastest growth in internet usage between 2000 and 2009, the region is now home to more than 60 million internet users. Retail, travel and gaming are the region’s top eCommerce segments, in spite of difficulties such as the lack of region-wide legal frameworks and logistical problems in cross-border transportation.[[25]](http://en.wikipedia.org/wiki/Electronic_commerce#cite_note-24) E-Commerce has become an important tool for businesses worldwide not only to sell to customers but also to engage them.[[26]](http://en.wikipedia.org/wiki/Electronic_commerce#cite_note-25)

**Distribution channels**

E-commerce has grown in importance as companies have adopted Pure-Click and [Brick and Click](http://en.wikipedia.org/wiki/Bricks_and_clicks) channel systems. We can distinguish between pure-click and brick and click channel system adopted by companies.

* Pure-Click companies are those that have launched a website without any previous existence as a firm. It is imperative that such companies must set up and operate their e-commerce websites very carefully. Customer service is of paramount importance.
* Brick and Click companies are those existing companies that have added an online site for e-commerce. Initially, Brick and Click companies were skeptical whether or not to add an online e-commerce channel for fear that selling their products might produce channel conflict with their off-line retailers, agents, or their own stores. However, they eventually added internet to their distribution channel portfolio after seeing how much business their online competitors were generating.

**Examples of e-Commerce transactions**:

* + Trading at eBay.com
  + Trading at Amazon.com
  + Trading shares at the stock market online
  + Online booking
  + Different purchases on the Internet
  + A retailer orders merchandise using an EDI network
  + Etc.

## The principle of m-Commerce

Mobile Commerce, also known as M-Commerce or mCommerce, is the ability to conduct commerce using a mobile device, such as a mobile phone, a Personal Digital Assistant (PDA), a smartphone, or other emerging mobile equipment such as [dashtop mobile](http://en.wikipedia.org/wiki/Dashtop_mobile) devices. Mobile Commerce has been defined as follows:

"Mobile Commerce is any transaction, involving the transfer of ownership or rights to use goods and services, which is initiated and/or completed by using mobile access to computer-mediated networks with the help of an electronic device."[[1]](http://en.wikipedia.org/wiki/Mobile_commerce#cite_note-0)

According to [comScore](http://en.wikipedia.org/wiki/ComScore), up to November 2011 there were 38 percent of smartphone owners have used their phone to make a purchase at least once.[[2]](http://en.wikipedia.org/wiki/Mobile_commerce#cite_note-1)

***Products and services available:***

* **Mobile ticketing**

Tickets can be sent to mobile phones using a variety of technologies. Users are then able to use their tickets immediately, by presenting their phones at the venue.

Tickets can be booked and cancelled on the mobile device with the help of simple application downloads, or by accessing the WAP portals of various travel agents or direct service providers.

* **Mobile vouchers, coupons and loyalty cards**

Mobile ticketing technology can also be used for the distribution of vouchers, coupons, and loyalty cards. These items are represented by a virtual token that is sent to the mobile phone. A customer presenting a mobile phone with one of these tokens at the [point of sale](http://en.wikipedia.org/wiki/Point_of_sale) receives the same benefits as if they had the traditional token. Stores may send coupons to customers using [location-based services](http://en.wikipedia.org/wiki/Location-based_service) to determine when the customer is nearby.

* **Content purchase and delivery**

Currently, mobile content purchase and delivery mainly consists of the sale of ring-tones, wallpapers, and games for mobile phones. The convergence of mobile phones, portable audio players, and video players into a single device is increasing the purchase and delivery of full-length music tracks and video. The download speeds available with [4G](http://en.wikipedia.org/wiki/4G) networks make it possible to buy a movie on a mobile device in a couple of seconds.

* **Location-based services**

The location of the mobile phone user is an important piece of information used during mobile commerce or m-commerce transactions. Knowing the location of the user allows for [location-based services](http://en.wikipedia.org/wiki/Location-based_service) such as:

* Local discount offers
* Local weather
* Tracking and monitoring of people
* **Information services**

A wide variety of information services can be delivered to mobile phone users in much the same way as it is delivered to PCs. These services include:

* [News](http://en.wikipedia.org/wiki/News)
* [Stock quotes](http://en.wikipedia.org/wiki/Ticker_tape)
* Sports scores
* Financial records
* [Traffic reporting](http://en.wikipedia.org/wiki/Traffic_reporting)

Customized traffic information, based on a user's actual travel patterns, can be sent to a mobile device. This customized data is more useful than a generic traffic-report broadcast, but was impractical before the invention of modern mobile devices due to the [bandwidth](http://en.wikipedia.org/wiki/Bandwidth_(computing)) requirements.

* **Mobile banking**

*Main article:*[*Mobile Banking*](http://en.wikipedia.org/wiki/Mobile_Banking)

Banks and other financial institutions use mobile commerce to allow their customers to access account information and make transactions, such as purchasing stocks, remitting money. This service is often referred to as [*Mobile Banking*](http://en.wikipedia.org/wiki/Mobile_Banking), or M-Banking.

* **Mobile StoreFront**

The reinvention of the mobile phone as a touch sensitive handheld computer has for the first time made mobile commerce practically feasible. 'According to ABI Research, mobile is going to get a lot bigger in the ecommerce market. The research firm is predicting that in 2015, $119bn worth of goods and services will be purchased via a mobile phone.'

* **Mobile brokerage**

Stock market services offered via mobile devices have also become more popular and are known as Mobile Brokerage. They allow the subscriber to react to market developments in a timely fashion and irrespective of their physical location.

* **Auctions**

Over the past three years[[*when?*](http://en.wikipedia.org/wiki/Wikipedia:Manual_of_Style_(dates_and_numbers)#Chronological_items)] [mobile reverse auction](http://en.wikipedia.org/wiki/Mobile_reverse_auction) solutions have grown in popularity.[[*by whom?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] Unlike traditional auctions, the reverse auction (or low-bid auction) bills the consumer's phone each time they place a bid. Many mobile [SMS](http://en.wikipedia.org/wiki/SMS) commerce solutions rely on a one-time purchase or one-time subscription; however, reverse auctions offer a high return for the mobile vendor as they require the consumer to make multiple transactions over a long period of time.

* **Mobile Browsing**

Using a mobile browser—a [World Wide Web](http://en.wikipedia.org/wiki/World_Wide_Web) browser on a mobile device—customers can shop online without having to be at their personal computer.

* **Mobile Purchase**

[Catalog merchants](http://en.wikipedia.org/wiki/Catalog_merchants) can accept orders from customers electronically, via the customer's mobile device. In some cases, the merchant may even deliver the catalog electronically, rather than mailing a paper catalog to the customer. Some merchants provide [mobile websites](http://en.wikipedia.org/wiki/Mobile_web) that are customized for the smaller screen and limited user interface of a mobile device.

* **Mobile marketing and advertising**

In the context of mobile commerce, **mobile marketing** refers to marketing sent to mobile devices. Companies have reported that they see better response from mobile marketing campaigns than from traditional campaigns. Research demonstrates that consumers of mobile and wire line markets represent two distinct groups who are driven by different values and behaviors, and who exhibit dissimilar psychographic and demographic profiles.[[5]](http://en.wikipedia.org/wiki/Mobile_commerce#cite_note-4) As a result, successful mobile commerce requires the development of marketing campaigns targeted to this particular market segment.

**Influence on youth markets**

Mobile media is a rapidly changing field. New technologies, such as [WiMax](http://en.wikipedia.org/wiki/WiMax), act to accelerate innovation in mobile commerce. Early pioneers in mobile advertising include [Vodafone](http://en.wikipedia.org/wiki/Vodafone), [Orange](http://en.wikipedia.org/wiki/Orange_(telecommunications)), and [SK Telecom](http://en.wikipedia.org/wiki/SK_Telecom).

Mobile devices are heavily used in South Korea to conduct mobile commerce. Mobile companies in South Korea believed that mobile technology would become synonymous with youth life style, based on their experience with previous generations of South Koreans.

**Payment methods**

Consumers can use many forms of payment in mobile commerce, including:

* [Premium-rate telephone numbers](http://en.wikipedia.org/wiki/Premium-rate_telephone_number)', which apply charges to the consumer's long-distance bill
* Charges added to the consumer's mobile telephone bill, including deductions to pre-paid calling plans
* [Credit cards](http://en.wikipedia.org/wiki/Credit_card)
  + Some providers allow credit cards to be linked to a phone's [SIM card](http://en.wikipedia.org/wiki/SIM_card)
* [Micropayment](http://en.wikipedia.org/wiki/Micropayment) services
* [Stored-value cards](http://en.wikipedia.org/wiki/Stored-value_card), often used with mobile-device application stores or music stores

## Different classification of e-Commerce system

Roughly dividing the world into providers/producers and consumers/clients one can classify e-businesses into the following categories:

**Business-to-Business (B2B)**

**Business-to-business** (**B2B**) describes commerce transactions between businesses, such as between a [manufacturer](http://en.wikipedia.org/wiki/Manufacturer) and a [wholesaler](http://en.wikipedia.org/wiki/Wholesaler), or between a wholesaler and a retailer. Contrasting terms are business-to-consumer ([B2C](http://en.wikipedia.org/wiki/Business-to-consumer)) and business-to-government ([B2G](http://en.wikipedia.org/wiki/Business-to-government)).

The volume of B2B (Business-to-Business) transactions is much higher than the volume of B2C transactions. [[1]](http://en.wikipedia.org/wiki/Business-to-business#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Business-to-business#cite_note-1)[[3]](http://en.wikipedia.org/wiki/Business-to-business#cite_note-2) The primary reason for this is that in a typical [supply chain](http://en.wikipedia.org/wiki/Supply_chain) there will be many B2B transactions involving sub components or [raw materials](http://en.wikipedia.org/wiki/Raw_materials), and only one B2C transaction, specifically sale of the finished product to the end customer. For example, an automobile manufacturer makes several B2B transactions such as buying tires, glass for windscreens, and rubber hoses for its vehicles. The final transaction, a finished vehicle sold to the consumer, is a single ([B2C](http://en.wikipedia.org/wiki/Business-to-consumer)) transaction.

B2B is also used in the context of communication and collaboration. Many businesses are now using social media to connect with their consumers (B2C); however, they are now using similar tools within the business so employees can connect with one another. When communication is taking place amongst employees, this can be referred to as "B2B" communication.

**Business-to-Consumer (B2C)**

**Retail** is the [sale](http://en.wikipedia.org/wiki/Sales) of goods and services from individuals or businesses to the [end-user](http://en.wikipedia.org/wiki/End-user). Retailers are part of an integrated system called the [supply-chain](http://en.wikipedia.org/wiki/Supply-chain). A retailer purchases goods or [products](http://en.wikipedia.org/wiki/Product_(business)) in large quantities from [manufacturers](http://en.wikipedia.org/wiki/Manufacturing) or directly through a [wholesaler](http://en.wikipedia.org/wiki/Wholesale), and then sells smaller quantities to the [consumer](http://en.wikipedia.org/wiki/Consumer) for a profit.

B2C (Business to Consumer) represents online retailing/transaction that occurs between a company and a consumer.

**Business-to-employee** (**B2E)**

**Business-to-employee** (**B2E**) [electronic commerce](http://en.wikipedia.org/wiki/Electronic_commerce) uses an intrabusiness [network](http://en.wikipedia.org/wiki/Computer_network) which allows companies to provide products and/or services to their employees. Typically, companies use B2E networks to automate employee-related corporate processes.

Examples of B2E applications include:

* Online insurance policy management
* Corporate announcement dissemination
* Online supply requests
* Special employee offers
* [Employee benefits](http://en.wikipedia.org/wiki/Employee_benefits) reporting
* [401(k)](http://en.wikipedia.org/wiki/401(k)) Management

**Business-to-government** (**B2G**)

**Business-to-government** (**B2G**) is a derivative of [B2B marketing](http://en.wikipedia.org/wiki/Business-to-business) and often referred to as a market definition of "public sector marketing" which encompasses marketing products and services to various government levels - including federal, state and local - through integrated marketing communications techniques such as strategic public relations, branding, marcom, advertising, and web-based communications.

B2G networks provide a platform for businesses to bid on government opportunities which are presented as solicitations in the form of [RFPs](http://en.wikipedia.org/wiki/RFP) in a [reverse auction](http://en.wikipedia.org/wiki/Reverse_auction) fashion. Public sector organizations (PSOs) post [tenders](http://en.wikipedia.org/wiki/Call_for_bids) in the form of RFPs, [RFIs](http://en.wikipedia.org/wiki/Request_for_information), [RFQs](http://en.wikipedia.org/wiki/Request_for_quotation), Sources Sought, etc. and suppliers respond to them.

**Government-to-Business (G2B)**

**Government-to-Business** (abbreviated [G2B](http://en.wikipedia.org/wiki/G2B_(disambiguation))) is the [online](http://en.wikipedia.org/wiki/Online) non-commercial interaction between local and central government and the commercial business sector, rather than private individuals ([G2C](http://en.wikipedia.org/wiki/G2C)), with the purpose of providing businesses information and advice on [e-business](http://en.wikipedia.org/wiki/E-business) '[best practices](http://en.wikipedia.org/wiki/Best_practices)'.

**Government-to-Government (G2G)**

**Government-to-Government** (abbreviated G2G) is the online non-commercial interaction between Government organisations, departments, and authorities and other Government organisations, departments, and authorities. Its use is common in the [UK](http://en.wikipedia.org/wiki/UK), along with [G2C](http://en.wikipedia.org/wiki/G2C), the online non-commercial interaction of local and central Government and private individuals, and [G2B](http://en.wikipedia.org/wiki/Government-to-business) the online non-commercial interaction of local and central Government and the commercial business sector.

**Government-to-Citizen (G2C)**

**Government-to-Citizen** (abbreviated G2C) is the communication link between a government and private individuals or residents. Such G2C communication most often refers to that which takes place through [Information and Communication Technologies](http://en.wikipedia.org/wiki/Information_and_Communication_Technologies) (ICTs), but can also include [direct mail](http://en.wikipedia.org/wiki/Direct_mail) and media campaigns. G2C can take place at the federal, state, and local levels. G2C stands in contrast to G2B, or [Government-to-Business](http://en.wikipedia.org/wiki/Government-to-business) networks.

**Consumer-to-consumer  (C2C)**

**Consumer-to-consumer** (C2C) (or *citizen-to-citizen*) [**electronic commerce**](http://en.wikipedia.org/wiki/Electronic_commerce) involves the electronically facilitated transactions between consumers through some third party. A common example is the[online auction](http://en.wikipedia.org/wiki/Online_auction), in which a consumer posts an item for sale and other consumers bid to purchase it; the third party generally charges a [flat fee](http://en.wikipedia.org/wiki/Flat_fee) or [commission](http://en.wikipedia.org/wiki/Commission_(remuneration)). The sites are only intermediaries, just there to match consumers. They do not have to check quality of the products being offered.

**Consumer-to-consumer**[[1]](http://en.wikipedia.org/wiki/Consumer_to_consumer#cite_note-multiple-0) (C2C) [**marketing**](http://en.wikipedia.org/wiki/Marketing) is the creation of a product or service with the specific promotional strategy being for consumers to share that product or service with others as brand [advocates](http://en.wikipedia.org/wiki/Advocates) based on the value of the product. The investment into concepting and developing a top of the line product or service that consumers are actively looking for is equatable to a [Business-to-consumer](http://en.wikipedia.org/wiki/Business-to-consumer) [[1]](http://en.wikipedia.org/wiki/Consumer_to_consumer#cite_note-multiple-0) (B2C) pre launch product awareness marketing spend.

**Consumer-to-business** (**C2B**)

**Consumer-to-business** (**C2B**) is a [business model](http://en.wikipedia.org/wiki/Business_model) in which consumers (individuals) create value, and firms consume this value. For example, when a consumer writes reviews, or when a consumers gives a useful idea for new product development, then this individual is creating value to the firm, if the firm adopts the input.

Another form of C2B is the [electronic commerce](http://en.wikipedia.org/wiki/Electronic_commerce) business model, in which consumers can offer products and services to companies and the companies pay them. This business model is a complete reversal of traditional business model where companies offer goods and services to consumers ([business-to-consumer](http://en.wikipedia.org/wiki/Business-to-consumer) = B2C). We can see this example in [blogs](http://en.wikipedia.org/wiki/Blogs) or [internet forums](http://en.wikipedia.org/wiki/Internet_forums) where the author offers a link back to an online business facilitating the purchase of some product (like a book on [Amazon.com](http://en.wikipedia.org/wiki/Amazon.com)), and the author might receive affiliate revenue from a successful sale.

This kind of economic relationship is qualified as an inverted business type. The advent of the C2B scheme is due to major changes:

* Connecting a large group of people to a bidirectional network has made this sort of commercial relationship possible. The large traditional media outlets are one direction relationship whereas the internet is bidirectional one.
* Decreased cost of technology : Individuals now have access to technologies that were once only available to large companies ( digital printing and acquisition technology, high performance computer, powerful software)

# VIII Information system and management

An **information system** (IS)[[1]](http://en.wikipedia.org/wiki/Information_system#cite_note-0) - is any combination of [information technology](http://en.wikipedia.org/wiki/Information_technology) and people's activities that support operations, management and decision making.[[2]](http://en.wikipedia.org/wiki/Information_system#cite_note-1) In a very broad sense, the term *information system* is frequently used to refer to the interaction between people, processes, data and technology. In this sense, the term is used to refer not only to the [information and communication technology](http://en.wikipedia.org/wiki/Information_and_communication_technology) (ICT) that an organization uses, but also to the way in which people interact with this technology in support of business processes.[[3]](http://en.wikipedia.org/wiki/Information_system#cite_note-2)

Some make a clear distinction between information systems, computer systems, and business processes. Information systems typically include an ICT component but are not purely concerned with ICT, focusing in instead, on the end use of information technology. Information systems are also different from business processes. Information systems help to control the performance of business processes.[[4]](http://en.wikipedia.org/wiki/Information_system#cite_note-3)

Alter argues for an information system as a special type of work system. A work system is a system in which humans and/or machines perform work using resources to produce specific products and/or services for customers. An information system is a work system whose activities are devoted to processing (capturing, transmitting, storing, retrieving, manipulating and displaying) information.[[5]](http://en.wikipedia.org/wiki/Information_system#cite_note-4)

As such, information systems inter-relate with [data systems](http://en.wikipedia.org/wiki/Data_systems) on the one hand and activity systems on the other. An information system is a form of [communication](http://en.wikipedia.org/wiki/Communication) system in which data represent and are processed as a form of social memory. An information system can also be considered a semi-formal language which supports human [decision making](http://en.wikipedia.org/wiki/Decision_making) and action.

Information systems are the primary focus of study for the [information systems discipline](http://en.wikipedia.org/wiki/Information_systems_(discipline)) and for [organizational informatics](http://en.wikipedia.org/wiki/Organizational_informatics).[[6]](http://en.wikipedia.org/wiki/Information_system#cite_note-5)

**Components**

It consists of computers, instructions, stored facts, people and procedures.

ISs can be categorized in five parts:

1. [Management Information System](http://en.wikipedia.org/wiki/Management_Information_System) (MIS)
2. [Decision Support System](http://en.wikipedia.org/wiki/Decision_Support_System) (DSS)
3. [Executive Information System](http://en.wikipedia.org/wiki/Executive_Information_System) (EIS)
4. [Transaction Processing System](http://en.wikipedia.org/wiki/Transaction_Processing_System) (TPS)

## Management information system

A **management information system** (**MIS**) provides information that is needed to manage organizations efficiently and effectively.[[1]](http://en.wikipedia.org/wiki/Management_Information_System#cite_note-0) Management [information systems](http://en.wikipedia.org/wiki/Information_system) involve three primary resources: people, technology, and information or decision making. Management information systems are distinct from other [information systems](http://en.wikipedia.org/wiki/Information_system) in that they are used to analyze operational activities in the organization.[[2]](http://en.wikipedia.org/wiki/Management_Information_System#cite_note-obrien-1) Academically, the term is commonly used to refer to the group of information management methods tied to the automation or support of human decision-making, e.g. [decision support systems](http://en.wikipedia.org/wiki/Decision_support_system), [expert systems](http://en.wikipedia.org/wiki/Expert_system), and [executive information systems](http://en.wikipedia.org/wiki/Executive_information_system).[[2]](http://en.wikipedia.org/wiki/Management_Information_System#cite_note-obrien-1)

## Overview

Early business computers were used for simple operations such as tracking sales or payroll data, with little detail or structure. Over time, these [computer applications](http://en.wikipedia.org/wiki/Computer_application) became more complex, [hardware](http://en.wikipedia.org/wiki/Computer_hardware) [storage capacities](http://en.wikipedia.org/wiki/Computer_data_storage) grew, and technologies improved for connecting previously [isolated](http://en.wikipedia.org/wiki/Islands_of_automation) applications. As more and more data was stored and linked, managers sought greater detail as well as greater abstraction with the aim of creating entire management reports from the raw, stored data. The term "MIS" arose to describe such applications providing managers with information about sales, inventories, and other data that would help in managing the enterprise. Today, the term is used broadly in a number of contexts and includes (but is not limited to): [decision support systems](http://en.wikipedia.org/wiki/Decision_support_systems), [resource](http://en.wikipedia.org/wiki/Resource_management) and [people management](http://en.wikipedia.org/wiki/Human_resource_management) applications, [enterprise resource planning](http://en.wikipedia.org/wiki/Enterprise_resource_planning) (ERP), [enterprise performance management](http://en.wikipedia.org/wiki/Enterprise_performance_management) (EPM), [supply chain management](http://en.wikipedia.org/wiki/Supply_chain_management) (SCM), [customer relationship management](http://en.wikipedia.org/wiki/Customer_relationship_management) (CRM),[project management](http://en.wikipedia.org/wiki/Project_management) and database retrieval applications.

A successful MIS supports a business' long range plans, providing reports based upon performance analysis in areas critical to those plans, with feedback loops that allow for titivation of every aspect of the enterprise, including recruitment and training regimens. MIS not only indicates how things are going, but also why and where performance is failing to meet the plan. These reports include near-real-time performance of cost centers and projects with detail sufficient for individual accountability.

## Types

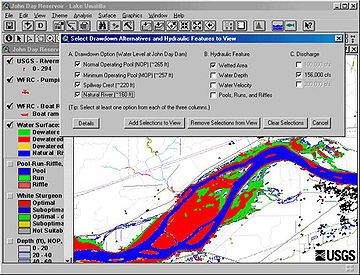
Most management information systems specialize in particular commercial and industrial sectors, aspects of the enterprise, or management substructure.

* *Management information systems (MIS)*, *per se*, produce fixed, regularly scheduled reports based on data extracted and summarized from the firm’s underlying [transaction processing systems](http://en.wikipedia.org/wiki/Transaction_processing_systems)[[4]](http://en.wikipedia.org/wiki/Management_Information_System#cite_note-3) to middle and operational level managers to identify and inform structured and semi-structured decision problems.
* [*Decision support systems*](http://en.wikipedia.org/wiki/Decision_support_system)*(DSS)* are computer program applications used by middle management to compile information from a wide range of sources to support problem solving and decision making.
* [*Executive information systems*](http://en.wikipedia.org/wiki/Executive_information_system)*(EIS)* is a reporting tool that provides quick access to summarized reports coming from all company levels and departments such as accounting, human resources and operations.
* [*Marketing information systems*](http://en.wikipedia.org/wiki/Marketing_information_system) are MIS designed specifically for managing the [marketing](http://en.wikipedia.org/wiki/Marketing) aspects of the business.
* [*Office automation systems*](http://en.wikipedia.org/wiki/Office_automation)*(OAS)* support communication and productivity in the enterprise by automating work flow and eliminating bottlenecks. OAS may be implemented at any and all levels of management.

**Enterprise applications**

* *Enterprise systems*, also known as [*enterprise resource planning*](http://en.wikipedia.org/wiki/Enterprise_resource_planning)*(ERP)* systems provide an organization with integrated software modules and a unified database which enable efficient planning, managing, and controlling of all core business processes across multiple locations. Modules of ERP systems may include finance, accounting, marketing, human resources, production, inventory management and distribution.
* [*Supply chain management*](http://en.wikipedia.org/wiki/Supply_chain_management)*(SCM)* systems enable more efficient management of the supply chain by integrating the links in a supply chain. This may include suppliers, manufacturer, wholesalers, retailers and final customers.
* [*Customer relationship management*](http://en.wikipedia.org/wiki/Customer_relationship_management)*(CRM)* systems help businesses manage relationships with potential and current customers and business partners across marketing, sales, and service.
* [*Knowledge management*](http://en.wikipedia.org/wiki/Knowledge_management)*system (KMS)* helps organizations facilitate the collection, recording, organization, retrieval, and dissemination of knowledge. This may include documents, accounting records, and unrecorded procedures, practices and skills.

## Decision support system

A **decision support system** (**DSS**) is a computer-based [information system](http://en.wikipedia.org/wiki/Information_system) that supports business or organizational [decision-making](http://en.wikipedia.org/wiki/Decision-making) activities. DSSs serve the management, operations, and planning levels of an organization and help to make decisions, which may be rapidly changing and not easily specified in advance.

DSSs include [knowledge-based systems](http://en.wikipedia.org/wiki/Expert_system). A properly designed DSS is an interactive software-based system intended to help decision makers compile useful information from a combination of raw data, documents, and personal knowledge, or business models to identify and solve problems and make decisions.

Typical information that a decision support application might gather and present includes:

* inventories of information assets (including legacy and relational data sources, cubes, [data warehouses](http://en.wikipedia.org/wiki/Data_warehouse), and [data marts](http://en.wikipedia.org/wiki/Data_mart)),
* comparative sales figures between one period and the next,
* projected revenue figures based on product sales assumptions.

## Components

Three fundamental components of a DSS [architecture](http://en.wikipedia.org/wiki/Systems_architecture) are:[[5]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-Haettenschwiler_1999-4)[[6]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-Power_2002-5)[[10]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-Sprague_and_Carlson_1982-9)[[11]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-10)[[12]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-Marakas.2C_G._M._1999-11)

1. the [database](http://en.wikipedia.org/wiki/Database) (or [knowledge base](http://en.wikipedia.org/wiki/Knowledge_base)),
2. the [model](http://en.wikipedia.org/wiki/Model_(abstract)) (i.e., the decision context and user criteria), and
3. the [user interface](http://en.wikipedia.org/wiki/User_interface).

The [users](http://en.wikipedia.org/wiki/End-user_(computer_science)) themselves are also important components of the architecture.[[5]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-Haettenschwiler_1999-4)[[12]](http://en.wikipedia.org/wiki/Decision_Support_System#cite_note-Marakas.2C_G._M._1999-11)

## Executive information system

An **executive information system** (EIS) is a type of [management information system](http://en.wikipedia.org/wiki/Management_information_system) intended to facilitate and support the information and [decision-making](http://en.wikipedia.org/wiki/Decision-making) needs of senior executives by providing easy access to both internal and external information relevant to meeting the strategic goals of the [organization](http://en.wikipedia.org/wiki/Organization). It is commonly considered as a specialized form of [decision support system](http://en.wikipedia.org/wiki/Decision_support_system) (DSS).[[1]](http://en.wikipedia.org/wiki/Executive_Information_System#cite_note-0)

The emphasis of EIS is on graphical displays and easy-to-use [user interfaces](http://en.wikipedia.org/wiki/User_interface). They offer strong reporting and [drill-down](http://en.wikipedia.org/wiki/Drill-down) capabilities. In general, EIS are enterprise-wide DSS that help top-level executives analyze, compare, and highlight trends in important [variables](http://en.wikipedia.org/wiki/Variable_(math)) so that they can monitor performance and identify opportunities and problems. EIS and [data warehousing](http://en.wikipedia.org/wiki/Data_warehousing) technologies are converging in the marketplace.

In recent years, the term EIS has lost popularity in favor of [business intelligence](http://en.wikipedia.org/wiki/Business_intelligence) (with the sub areas of reporting, [analytics](http://en.wikipedia.org/wiki/Analytics), and [digital dashboards](http://en.wikipedia.org/wiki/Dashboard_(business))).

## Components

The components of an EIS can typically be classified as:

### Hardware

When talking about [computer hardware](http://en.wikipedia.org/wiki/Computer_hardware) for an EIS environment, we should focus on the hardware that meet the executive’s needs. The executive must be put first and the executive’s needs must be defined before the hardware can be selected. The basic hardware needed for a typical EIS includes four components:

1. Input data-entry devices. These devices allow the executive to enter, verify, and update data immediately
2. The central processing unit ([CPU](http://en.wikipedia.org/wiki/CPU)), which is the kernel because it controls the other computer system components
3. Data storage files. The executive can use this part to save useful business information, and this part also help the executive to search historical business information easily
4. Output devices, which provide a visual or permanent record for the executive to save or read. This device refers to the visual output device such as monitor or printer

In addition, with the advent of local area networks ([LAN](http://en.wikipedia.org/wiki/LAN)), several EIS products for networked workstations became available. These systems require less support and less expensive computer hardware. They also increase access of the EIS information to many more users within a company.

### Software

Choosing the appropriate software is vital to design an effective EIS.Therefore, the software components and how they integrate the data into one system are very important. The basic software needed for a typical EIS includes four components:

1. Text base software. The most common form of text are probably documents
2. Database. Heterogeneous databases residing on a range of vendor-specific and open computer platforms help executives access both internal and external data
3. Graphic base. Graphics can turn volumes of text and statistics into visual information for executives. Typical graphic types are: time series charts, [scatter diagrams](http://en.wikipedia.org/wiki/Scatter_plot), [maps](http://en.wikipedia.org/wiki/Maps), motion graphics, sequence charts, and comparison-oriented graphs (i.e., [bar charts](http://en.wikipedia.org/wiki/Bar_chart))
4. Model base. The EIS models contain routine and special statistical, financial, and other quantitative analysis

### User interface

An EIS needs to be efficient to retrieve relevant data for decision makers, so the [user interface](http://en.wikipedia.org/wiki/User_Interface) is very important. Several types of interfaces can be available to the EIS structure, such as scheduled reports, questions/answers, menu driven, command language, natural language, and input/output.

### Telecommunication

As decentralizing is becoming the current trend in companies, telecommunications will play a pivotal role in networked information systems. Transmitting data from one place to another has become crucial for establishing a reliable network. In addition, telecommunications within an EIS can accelerate the need for access to distributed data.

## Applications

EIS enables executives to find those data according to user-defined criteria and promote information-based insight and understanding. Unlike a traditional management information system presentation, EIS can distinguish between vital and seldom-used data, and track different key critical activities for executives, both which are helpful in evaluating if the company is meeting its corporate objectives. After realizing its advantages, people have applied EIS in many areas, especially, in manufacturing, marketing, and finance areas.

### Manufacturing

Basically, manufacturing is the transformation of raw materials into finished goods for sale, or intermediate processes involving the production or finishing of semi-manufactures. It is a large branch of industry and of secondary production. Manufacturing operational control focuses on day-to-day operations, and the central idea of this process is effectiveness and efficiency.

### Marketing

In an organization, marketing executives’ role is to create the future. Their main duty is managing available marketing resources to create a more effective future. For this, they need make judgments about risk and uncertainty of a project and its impact on the company in short term and long term. To assist marketing executives in making effective marketing decisions, an EIS can be applied. EIS provides an approach to sales forecasting, which can allow the market executive to compare sales forecast with past sales. EIS also offers an approach to product price, which is found in venture analysis. The market executive can evaluate pricing as related to competition along with the relationship of product quality with price charged. In summary, EIS software package enables marketing executives to manipulate the data by looking for trends, performing audits of the sales data, and calculating totals, averages, changes, variances, or ratios.

### Financial

A financial analysis is one of the most important steps to companies today. The executive needs to use financial ratios and cash flow analysis to estimate the trends and make capital investment decisions. An EIS is a responsibility-oriented approach that integrates planning or budgeting with control of performance reporting, and it can be extremely helpful to finance executives. Basically, EIS focuses on accountability of financial performance and it recognizes the importance of cost standards and flexible budgeting in developing the quality of information provided for all executive levels.

## Transaction processing system

A **transaction processing system** is a type of [information system](http://en.wikipedia.org/wiki/Management_information_system). TPSs collect, store, modify, and retrieve the [transactions](http://en.wikipedia.org/wiki/Transaction_processing) of an organization. A transaction is an event that generates or modifies [data](http://en.wikipedia.org/wiki/Data) that is eventually stored in an information system. It is recommended that a transaction processing system should pass the [ACID test](http://en.wikipedia.org/wiki/ACID). The essence of a transaction program is that it manages data that must be left in a consistent state, e.g. if an electronic payment is made, the amount must be both withdrawn from one account and added to the other; it cannot complete only one of those steps. Either both must occur, or neither. In case of a failure preventing transaction completion, the partially executed transaction must be '[rolled back](http://en.wikipedia.org/wiki/Rollback_(data_management))' by the TPS. While this type of integrity must be provided also for [batch transaction processing](http://en.wikipedia.org/wiki/Batch_processing), it is particularly important for online processing: if e.g. an airline seat reservation system is accessed by multiple operators, after an empty seat inquiry, the seat reservation data must be locked until the reservation is made, otherwise another user may get the impression a seat is still free while it is actually being booked at the time. Without proper transaction monitoring, double bookings may occur. Other transaction monitor functions include [deadlock](http://en.wikipedia.org/wiki/Deadlock) detection and resolution (deadlocks may be inevitable in certain cases of cross-dependence on data), and transaction logging (in 'journals') for 'forward recovery' in case of massive failures.

Transaction Processing is not limited to application programs. For example, [Journaling file systems](http://en.wikipedia.org/wiki/Journaling_file_system) also employ the notion of transactions.

## Types

### Contrasted with batch processing

[Batch processing](http://en.wikipedia.org/wiki/Batch_processing) is a form of transaction processing. Batch processing involves processing several transactions at the same time, and the results of each transaction are not immediately available when the transaction is being entered;[[1]](http://en.wikipedia.org/wiki/Transaction_processing_system#endnote_HSC) there is a time delay. Transactions are accumulated for a certain period (say for day) where updates are made especially after work. Online transaction processing is the form of transaction processing that processes data as it becomes available.

### Real-time and batch processing

There are a number of differences between **real-time** and **batch processing**. These are outlined below:

Each transaction in real-time processing is unique. It is not part of a group of transactions, even though those transactions are processed in the same manner. Transactions in real-time processing are stand-alone both in the entry to the system and also in the handling of output.

Real-time processing requires the master file to be available more often for updating and reference than batch processing. The database is not accessible all of the time for batch processing.

Real-time processing has fewer errors than batch processing, as [transaction data](http://en.wikipedia.org/wiki/Transaction_data) is validated and entered immediately. With batch processing, the data is organised and stored before the master file is updated. Errors can occur during these steps.

Infrequent errors may occur in real-time processing; however, they are often tolerated. It is not practical to shut down the system for infrequent errors.

More computer operators are required in real-time processing, as the operations are not centralised. It is more difficult to maintain a real-time processing system than a batch processing system.

## Intelligent decision support systems

**Intelligent Decision Support Systems** (IDSS) is a term that describes [decision support systems](http://en.wikipedia.org/wiki/Decision_support_systems) that make extensive use of [artificial intelligence](http://en.wikipedia.org/wiki/Artificial_intelligence) (AI) techniques. Use of AI techniques in [management information systems](http://en.wikipedia.org/wiki/Management_information_systems) has a long history, indeed terms such as [Knowledge-based systems](http://en.wikipedia.org/wiki/Knowledge-based_systems) (KBS) and [intelligent systems](http://en.wikipedia.org/wiki/Intelligent_Systems) have been used since the early 1980s to describe components of management systems, but the term "Intelligent decision support system" is thought to originate with Clyde Holsapple and [Andrew Whinston](http://en.wikipedia.org/wiki/Andrew_B._Whinston)[[1]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-1) in the late 1970s. [Flexible manufacturing systems](http://en.wikipedia.org/wiki/Flexible_manufacturing_system) (FMS) [[3]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-2), intelligent marketing decision support systems [[4]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-3) and medical diagnosis systems [[5]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-4) can also be considered examples of intelligent decision support systems.

Ideally, an intelligent decision support system should behave like a human consultant; [supporting decision makers](http://en.wikipedia.org/wiki/Decision_support) by gathering and analysing evidence, identifying and diagnosing problems, proposing possible courses of action and evaluating the proposed actions. The aim of the AI techniques embedded in an intelligent decision support system is to enable these tasks to be performed by a computer, whilst emulating human capabilities as closely as possible.

Many IDSS implementations are based on [expert systems](http://en.wikipedia.org/wiki/Expert_systems)[[6]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-5), a well established type of KBS that encode the cognitive behaviours of human experts using predicate logic rules and have been shown to perform better than the original human experts in some circumstances.[[7]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-7) [Expert systems](http://en.wikipedia.org/wiki/Expert_systems) emerged as practical applications in the 1980s [[9]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-8) based on research in artificial intelligence performed during the late 1960s and early 1970s.[[10]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-9) They typically combine knowledge of a particular application domain with an [inference](http://en.wikipedia.org/wiki/Inference) capability to enable the system to propose decisions or diagnoses. Accuracy and consistency can be comparable to (or even exceed) that of human experts when the decision parameters are well known (e.g. if a common disease is being diagnosed), but performance can be poor when novel or uncertain circumstances arise.

Some research in AI, focused on enabling systems to respond to novelty and uncertainty in more flexible ways is starting to be used in intelligent decision support systems. For example [intelligent agents](http://en.wikipedia.org/wiki/Intelligent_agent)[[11]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-10) [[12]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-11) that perform complex [cognitive tasks](http://en.wikipedia.org/wiki/Cognition) without any need for human intervention have been used in a range of decision support applications.[[13]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-12) Capabilities of these intelligent agents include[knowledge sharing](http://en.wikipedia.org/wiki/KQML), [machine learning](http://en.wikipedia.org/wiki/Machine_learning), [data mining](http://en.wikipedia.org/wiki/Data_mining), and automated [inference](http://en.wikipedia.org/wiki/Inference). A range of AI techniques such as [case based reasoning](http://en.wikipedia.org/wiki/Case_based_reasoning), [rough sets](http://en.wikipedia.org/wiki/Rough_set)[[14]](http://en.wikipedia.org/wiki/Intelligent_decision_support_systems#cite_note-13) and [fuzzy logic](http://en.wikipedia.org/wiki/Fuzzy_logic) have also been used to enable decision support systems to perform better in uncertain conditions.

## Strategic information system

The concept of **Strategic Information Systems** or "SIS" was first introduced into the field of [information systems](http://en.wikipedia.org/wiki/Information_systems_(discipline)) in 1982-83 by Dr. Charles Wiseman, President of a newly formed [consultancy](http://en.wikipedia.org/wiki/Consultancy) called "Competitive Applications," (cf. NY State records for consultancies formed in 1982) who gave a series of public [lectures](http://en.wikipedia.org/wiki/Lecture) on SIS in [NYC](http://en.wikipedia.org/wiki/New_York_City) sponsored by the Datamation Institute, a subsidiary of[Datamation](http://en.wikipedia.org/wiki/Datamation) Magazine.

In 1985 Wiseman published an [article](http://en.wikipedia.org/wiki/Article_(publishing)) on this subject (co-authored by Prof. Ian MacMillan) in the Journal of Business Strategy (Journal of Business Strategy, fall, 1984)

In 1985 he published the first book on SIS called "Strategy and Computers: Information Systems as Competitive Weapons" (Dow-Jones Irwin, 1985; translated into French by Bertrand Kaulek and into Italian by Professor Fabio Corno of [Bocconi University](http://en.wikipedia.org/wiki/Bocconi_University)). In 1988 an expanded version of this book called "Strategic Information Systems" was published by Richard D. Irwin. This book was translated into Japanese by Professor Shinroki Tsuji and published by Diamond Publishing. Over 50,000 copies have been sold.

The following [quotations](http://en.wikipedia.org/wiki/Quotation) from the [Preface](http://en.wikipedia.org/wiki/Preface) of the first book ("Strategy and Computers: Information Systems as Competitive Weapons") establishes the basic idea behind the notion of SIS:

"I began collecting instances of [information systems](http://en.wikipedia.org/wiki/Information_system) used for strategic purposes five years ago, dubbing them "strategic information systems" (Internal Memo, [American Can Company](http://en.wikipedia.org/wiki/American_Can_Company) (Headquarters),[Greenwich, CT](http://en.wikipedia.org/wiki/Greenwich,_Connecticut), 1980). But from the start I was puzzled by their occurrence. At least theoretically I was unprepared to admit the existence of a new variety of [computer application](http://en.wikipedia.org/wiki/Computer_application). The conventional view at the time recognized only [management information systems](http://en.wikipedia.org/wiki/Management_information_system), and management support systems, the former used to satisfy the information needs and the latter to automate basic [business processes](http://en.wikipedia.org/wiki/Business_process) of decision makers. (Cf. articles by Richard Nolan, Jack Rockart, Michael Scott Morton, et al. at that time)...But as my file of cases grew, I realized that the conventional perspective on information systems was incomplete, unable to account for SIS. The examples belied the theory,and the theory in general blinded believers from seeing SIS. Indeed, some conventional information systems planning methodologies, which act like theories in guiding the systematic search for computer application opportunities, exclude certain SIS possibilities from what might be found. (ibid.)"

"This growing awareness of the inadequacy of the dominant [dogma](http://en.wikipedia.org/wiki/Dogma) of the day led me to investigate the conceptual foundations, so to speak, of information systems. At first, I believed that the conventional gospel could be enlarged to accommodate SIS. But as my research progressed, I abandoned this position and concluded that to explain SIS and facilitate their discovery, one needed to view uses of computer (information) technology from a radically different perspective."

"I call this the strategic perspective on information systems (technology). The chapters to follow present my conception of it. Written for top executives and line managers, they show how computers (information technology) can be used to support or shape competitive strategy."

Most of the second book, Strategic Information Systems, was exposed from 1985 to 1988 to MBA students at the [Columbia University Graduate School of Business](http://en.wikipedia.org/wiki/Columbia_University_Graduate_School_of_Business) and to a large number of practitioners seeking to apply SIS concepts to disparate industry settings. Since that time the concept has stimulated journals on the subject, [dissertations](http://en.wikipedia.org/wiki/Dissertation), and extensive critical research. (References: search Google Scholar, Clusty, et al. using the terms: Strategic Information Systems, SIS, Charles Wiseman, et al.)

## Document management system

A **document management system** (DMS) is a [computer system](http://en.wikipedia.org/wiki/Computer_system) (or set of computer programs) used to track and store [electronic documents](http://en.wikipedia.org/wiki/Electronic_document) and/or [images](http://en.wikipedia.org/wiki/Digital_image) of paper documents. It is usually also capable of keeping track of the different versions modified by different users (history tracking). The term has some overlap with the concepts of [content management systems](http://en.wikipedia.org/wiki/Content_management_system). It is often viewed as a component of [enterprise content management](http://en.wikipedia.org/wiki/Enterprise_content_management) (ECM) systems and related to [digital asset management](http://en.wikipedia.org/wiki/Digital_asset_management), [document imaging](http://en.wikipedia.org/wiki/Document_imaging), [workflow](http://en.wikipedia.org/wiki/Workflow) systems and [records management](http://en.wikipedia.org/wiki/Records_management) systems.

## Data management

**Data management** comprises all the [disciplines](http://en.wikipedia.org/wiki/List_of_academic_disciplines) related to managing [data](http://en.wikipedia.org/wiki/Data) as a valuable resource.

**Usage**

In modern [management usage](http://en.wikipedia.org/wiki/Management_fad), one can easily discern a trend away from the term 'data' in composite expressions to the term [information](http://en.wikipedia.org/wiki/Information) or even [knowledge](http://en.wikipedia.org/wiki/Knowledge) when talking in non-technical context. Thus there exists not only data management, but also [information management](http://en.wikipedia.org/wiki/Information_management) and [knowledge management](http://en.wikipedia.org/wiki/Knowledge_management). This is a misleading trend as it obscures that traditional data is managed or somehow[processed](http://en.wikipedia.org/wiki/Data_processing) on second looks. The distinction between data and derived values can be seen in the [information ladder](http://en.wikipedia.org/wiki/Information_ladder). While data can exist as such, 'information' and 'knowledge' are always in the "eye" (or rather the brain) of the beholder and can only be measured in relative units.

## Data hub

A **data hub** (**data management system**, or **DMS**) is software for collaborating on gathering, sharing and using analytical data.[[1]](http://en.wikipedia.org/wiki/Data_management_system#cite_note-okfn_notebook-0)

The term is usually used to refer to the new web-based generation of such products. They can be either platforms for handling lots of different kinds of data, or in verticals specialising in one particular field.

## Features

At core, a DMS is a list of datasets that are of diverse schema.

Once you have that, people expect the following features, and/or tight integration with tools that provide them:[[2]](http://en.wikipedia.org/wiki/Data_management_system#cite_note-cms_to_dms-1)

* Load and update data from any source (ETL)
* Store datasets and index them for querying
* View, analyse and update data in a tabular interface (spreadsheet)
* Visualise data, for example with charts or maps
* Analyse data, for example with statistics and machine learning
* Organise many people to enter or correct data (crowd-sourcing)
* Measure and ensure the quality of data, and its provenance
* Permissions; data can be open, private or shared
* Find datasets, and organise them to help others find them
* Sell data, sharing processing costs between users

## Knowledge management

**Knowledge management** (**KM**) comprises a range of strategies and practices used in an organization to identify, create, represent, distribute, and enable adoption of [insights](http://en.wikipedia.org/wiki/Insight) and [experiences](http://en.wikipedia.org/wiki/Experience). Such insights and experiences comprise [knowledge](http://en.wikipedia.org/wiki/Knowledge), either embodied in individuals or embedded in organizations as [processes](http://en.wikipedia.org/wiki/Business_process) or practices.

An established [discipline](http://en.wikipedia.org/wiki/List_of_academic_disciplines) since 1991 (see [Nonaka 1991](http://en.wikipedia.org/wiki/Knowledge_management#CITEREFNonaka1991)), KM includes courses taught in the fields of [business administration](http://en.wikipedia.org/wiki/Business_administration), [information systems](http://en.wikipedia.org/wiki/Information_systems), management, and library and [information sciences](http://en.wikipedia.org/wiki/Information_sciences)([Alavi & Leidner 1999](http://en.wikipedia.org/wiki/Knowledge_management#CITEREFAlaviLeidner1999)). More recently, other fields have started contributing to KM research; these include information and media, [computer science](http://en.wikipedia.org/wiki/Computer_science), [public health](http://en.wikipedia.org/wiki/Public_health), and [public policy](http://en.wikipedia.org/wiki/Policy).

Many large companies and non-profit organizations have resources dedicated to internal KM efforts, often as a part of their [business strategy](http://en.wikipedia.org/wiki/Strategic_management), information technology, or [human resource management](http://en.wikipedia.org/wiki/Human_resource_management)departments ([Addicott, McGivern & Ferlie 2006](http://en.wikipedia.org/wiki/Knowledge_management#CITEREFAddicottMcGivernFerlie2006)). Several consulting companies also exist that provide strategy and advice regarding KM to these organizations.

Knowledge management efforts typically focus on organizational [objectives](http://en.wikipedia.org/wiki/Goal) such as improved performance, [competitive advantage](http://en.wikipedia.org/wiki/Competitive_advantage), innovation, the sharing of lessons learned, integration and [continuous improvement](http://en.wikipedia.org/wiki/Continuous_improvement) of the organization. KM efforts overlap with [organizational learning](http://en.wikipedia.org/wiki/Organizational_learning), and may be distinguished from that by a greater focus on the management of knowledge as a strategic asset and a focus on encouraging the sharing of knowledge. It is seen as an enabler of organisational learning[[1]](http://en.wikipedia.org/wiki/Knowledge_management#cite_note-0) and a more concrete mechanism than the previous abstract research.

**Strategies**

Knowledge may be accessed at three stages: before, during, or after KM-related activities. Different organizations have tried various knowledge capture [incentives](http://en.wikipedia.org/wiki/Incentives), including making content submission mandatory and incorporating rewards into [performance measurement](http://en.wikipedia.org/wiki/Performance_measurement) plans. Considerable controversy exists over whether incentives work or not in this field and no consensus has emerged.

One strategy to KM involves actively managing knowledge (push strategy). In such an instance, individuals strive to explicitly encode their knowledge into a shared knowledge repository, such as a[database](http://en.wikipedia.org/wiki/Database), as well as retrieving knowledge they need that other individuals have provided to the repository.[[13]](http://en.wikipedia.org/wiki/Knowledge_management#cite_note-12) This is also commonly known as the Codification approach to KM.

Another strategy to KM involves individuals making knowledge requests of experts associated with a particular subject on an ad hoc basis (pull strategy). In such an instance, expert individual(s) can provide their [insights](http://en.wikipedia.org/wiki/Insights) to the particular person or people needing this ([Snowden 2002](http://en.wikipedia.org/wiki/Knowledge_management#CITEREFSnowden2002)). This is also commonly known as the Personalization approach to KM.

Other knowledge management strategies and instruments for companies include:

* rewards (as a means of motivating for knowledge sharing)
* [storytelling](http://en.wikipedia.org/wiki/Storytelling) (as a means of transferring tacit knowledge)
* cross-project learning
* [after action reviews](http://en.wikipedia.org/wiki/After_action_review)
* knowledge mapping (a map of knowledge repositories within a company accessible by all)
* [communities of practice](http://en.wikipedia.org/wiki/Communities_of_practice)
* expert directories (to enable knowledge seeker to reach to the experts)
* best practice transfer
* [knowledge fairs](http://en.wikipedia.org/w/index.php?title=Knowledge_fairs&action=edit&redlink=1)
* competence management (systematic evaluation and planning of competences of individual organization members)
* proximity & architecture (the physical situation of employees can be either conducive or obstructive to knowledge sharing)
* master-apprentice relationship
* collaborative technologies ([groupware](http://en.wikipedia.org/wiki/Groupware), etc.)
* knowledge repositories (databases, [bookmarking engines](http://en.wikipedia.org/wiki/Enterprise_bookmarking), etc.)
* measuring and reporting intellectual capital (a way of making explicit knowledge for companies)
* [knowledge brokers](http://en.wikipedia.org/wiki/Knowledge_broker) (some organizational members take on responsibility for a specific "field" and act as first reference on whom to talk about a specific subject)
* [social software](http://en.wikipedia.org/wiki/Social_software) (wikis, social bookmarking, blogs, etc.)
* Inter-project knowledge transfer

# VIII Security

**Security** is the degree of protection against danger, damage, loss, and [crime](http://en.wikipedia.org/wiki/Crime). Securities as a form of protection are *structures and processes that provide or improve security as a condition.*

## Categorising security

There is an immense literature on the analysis and categorisation of security. Part of the reason for this is that, in most security systems, the "weakest link in the chain" is the most important. The situation is asymmetric since the 'defender' must cover all points of attack while the attacker need only identify a single weak point upon which to concentrate.

**Types of security:**

|  |
| --- |
| * [Application security](http://en.wikipedia.org/wiki/Application_security) * [Computing security](http://en.wikipedia.org/wiki/Computer_security) * [Data security](http://en.wikipedia.org/wiki/Data_security) * [Information security](http://en.wikipedia.org/wiki/Information_security) * [Network security](http://en.wikipedia.org/wiki/Network_security) |

## Application security

**Application security** encompasses measures taken throughout the application's life-cycle to prevent exceptions in the [security policy](http://en.wikipedia.org/wiki/Security_policy) of an [application](http://en.wikipedia.org/wiki/Application_software) or the underlying [system](http://en.wikipedia.org/wiki/Operating_system) ([vulnerabilities](http://en.wikipedia.org/wiki/Vulnerability_(computer_science))) through flaws in the [design](http://en.wikipedia.org/wiki/Software_design), [development](http://en.wikipedia.org/wiki/Software_engineering), [deployment](http://en.wikipedia.org/wiki/Software_deployment), [upgrade](http://en.wikipedia.org/wiki/Software_upgrading), or [maintenance](http://en.wikipedia.org/wiki/Software_maintenance) of the application.

Applications only control the use of resources [granted](http://en.wikipedia.org/wiki/Access_control) to them, and not *which* resources are granted to them. They, in turn, determine the use of these resources by users of the application through application security.

Open Web Application Security Project ([OWASP](http://en.wikipedia.org/wiki/OWASP)) and Web Application Security Consortium ([WASC](http://en.wikipedia.org/wiki/WASC)) updates on the latest threats which impair web based applications. This aids developers, security testers and architects to focus on better design and mitigation strategy. OWASP Top 10 has become an industrial norm in assessing Web Applications.

## Computer security

**Computer security** is a branch of computer technology known as [information security](http://en.wikipedia.org/wiki/Information_security) as applied to [computers](http://en.wikipedia.org/wiki/Computer) and networks. The objective of computer security includes protection of information and property from theft, corruption, or natural disaster, while allowing the information and property to remain accessible and productive to its intended users. The term computer system security means the collective processes and mechanisms by which sensitive and valuable information and services are protected from publication, tampering or collapse by unauthorized activities or untrustworthy individuals and unplanned events respectively. The strategies and methodologies of computer security often differ from most other computer technologies because of its somewhat elusive objective of preventing unwanted computer behavior instead of enabling wanted computer behavior.

## Data security

Data Security means protecting a database from destructive forces and the unwanted actions of unauthorised users.[[1]](http://en.wikipedia.org/wiki/Data_security#cite_note-0)

## Information security

**Information security** means protecting information and [information systems](http://en.wikipedia.org/wiki/Information_system) from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction.[[1]](http://en.wikipedia.org/wiki/Information_security#cite_note-0)

The terms information security, [computer security](http://en.wikipedia.org/wiki/Computer_security) and [information assurance](http://en.wikipedia.org/wiki/Information_assurance) are frequently used interchangeably. These fields are interrelated often and share the common goals of protecting the [confidentiality](http://en.wikipedia.org/wiki/Confidentiality), [integrity](http://en.wikipedia.org/wiki/Data_integrity) and [availability](http://en.wikipedia.org/wiki/Availability) of information; however, there are some subtle differences between them. These differences lie primarily in the approach to the subject, the methodologies used, and the areas of concentration. Information security is concerned with the confidentiality, integrity and availability of [data](http://en.wikipedia.org/wiki/Data) regardless of the form the data may take: electronic, print, or other forms. Computer security can focus on ensuring the availability and correct operation of a [computer system](http://en.wikipedia.org/wiki/Computer_system) without concern for the information stored or processed by the computer. Information assurance focuses on the reasons for assurance that information is protected, and is thus reasoning about information security.

[Governments](http://en.wikipedia.org/wiki/Governments), [military](http://en.wikipedia.org/wiki/Military), [corporations](http://en.wikipedia.org/wiki/Corporations), [financial institutions](http://en.wikipedia.org/wiki/Financial_institutions), [hospitals](http://en.wikipedia.org/wiki/Hospitals), and private [businesses](http://en.wikipedia.org/wiki/Businesses) amass a great deal of confidential information about their employees, customers, products, research, and financial status. Most of this information is now collected, processed and stored on electronic [computers](http://en.wikipedia.org/wiki/Computers) and transmitted across [networks](http://en.wikipedia.org/wiki/Computer_network) to other computers. Should confidential information about a business' customers or finances or new product line fall into the hands of a competitor, such a breach of security could lead to negative consequences. Protecting confidential information is a business requirement, and in many cases also an ethical and legal requirement.

For the individual, information security has a significant effect on [privacy](http://en.wikipedia.org/wiki/Privacy), which is viewed very differently in different [cultures](http://en.wikipedia.org/wiki/Cultures).

The field of information security has grown and evolved significantly in recent years. There are many ways of gaining entry into the field as a career. It offers many areas for specialization including: securing network(s) and allied [infrastructure](http://en.wikipedia.org/wiki/Infrastructure), securing [applications](http://en.wikipedia.org/wiki/Application_software) and [databases](http://en.wikipedia.org/wiki/Database), [security testing](http://en.wikipedia.org/wiki/Security_testing), information systems [auditing](http://en.wikipedia.org/wiki/Audit), [business continuity planning](http://en.wikipedia.org/wiki/Business_continuity_planning) and [digital forensics](http://en.wikipedia.org/wiki/Digital_forensics) science, etc.

## Network security

**Network security**[[1]](http://en.wikipedia.org/wiki/Network_security#cite_note-0) consists of the provisions and [policies](http://en.wikipedia.org/wiki/Policies) adopted by a [network administrator](http://en.wikipedia.org/wiki/Network_administrator) to prevent and monitor [unauthorized](http://en.wikipedia.org/wiki/Unauthorized) access, misuse, modification, or denial of a [computer network](http://en.wikipedia.org/wiki/Computer_network) and network-accessible resources. Network security involves the authorization of access to data in a network, which is controlled by the network administrator. Users choose or are assigned an ID and password or other authenticating information that allows them access to information and programs within their authority. Network security covers a variety of computer networks, both public and private, that are used in everyday jobs conducting transactions and communications among businesses, government agencies and individuals. Networks can be private, such as within a company, and others which might be open to public access. Network security is involved in organizations, enterprises, and other types of institutions. It does as its title explains: It secures the network, as well as protecting and overseeing operations being done. The most common and simple way of protecting a network resource is by assigning it a unique name and a corresponding password.

## IT security essentials

**Internet secutiry**

**Internet security** is a branch of [computer security](http://en.wikipedia.org/wiki/Computer_security) specifically related to the [Internet](http://en.wikipedia.org/wiki/Internet), often involving [browser security](http://en.wikipedia.org/wiki/Browser_security) but also [network security](http://en.wikipedia.org/wiki/Network_security) on a more general level as it applies to other applications or [operating systems](http://en.wikipedia.org/wiki/Operating_systems) on a whole. Its objective is to establish rules and measures to use against attacks over the Internet.[[1]](http://en.wikipedia.org/wiki/Internet_security#cite_note-0) The Internet represents an insecure channel for exchanging information leading to a high risk of [intrusion](http://en.wikipedia.org/wiki/Hacker_(computer_security)) or fraud, such as [phishing](http://en.wikipedia.org/wiki/Phishing).[[2]](http://en.wikipedia.org/wiki/Internet_security#cite_note-1) Different methods have been used to protect the transfer of data, including [encryption](http://en.wikipedia.org/wiki/Encryption).

**Internet safety**

**Internet safety**, or **online safety**, is the security of people and their information when using the [internet](http://en.wikipedia.org/wiki/Internet). Numerous groups, Internet sites and governments have expressed concerns over the safety of children using the Internet. In the [UK](http://en.wikipedia.org/wiki/United_Kingdom) the [Get Safe Online](http://en.wikipedia.org/wiki/Get_Safe_Online) campaign has received sponsorship from government agency [Serious Organized Crime Agency (SOCA)](http://en.wikipedia.org/wiki/Serious_Organized_Crime_Agency) and major Internet companies such as [Microsoft](http://en.wikipedia.org/wiki/Microsoft) and [eBay](http://en.wikipedia.org/wiki/EBay). Several [crimes](http://en.wikipedia.org/wiki/Crime) can be committed on the Internet such as stalking, identity theft and more. Most social networking and chat sites have a page about safety.

**Issues**

The main issues with Internet safety include:

* Avoiding 'net nasties' including: [phishing](http://en.wikipedia.org/wiki/Phishing), [malware](http://en.wikipedia.org/wiki/Malware) and [viruses](http://en.wikipedia.org/wiki/Computer_virus).
* Avoiding online [scams and confidence tricks](http://en.wikipedia.org/wiki/Confidence_tricks), [Internet fraud](http://en.wikipedia.org/wiki/Internet_fraud) and [computer crime](http://en.wikipedia.org/wiki/Computer_crime).
* Avoiding unwelcome sites, particularly pornography and other sites that may be unsuitable for children.
* Avoiding unsuitable and undesirable message exchanging on networking sites, perhaps with people who could be dangerous to unsuspecting children. There are over 3000 cases a year of people who have been cyberbullied, stalked and worse by strangers online, or have had their internet networking site pages hacked into.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

**Tips**

* Don't give out *any* personal information online.
* Try not to speak to people you don't know.
* Don't tell your password to other people.

## Browser security

**Browser security** is the application of [internet security](http://en.wikipedia.org/wiki/Internet_security) to [web browsers](http://en.wikipedia.org/wiki/Web_browser) to protect [computer systems](http://en.wikipedia.org/wiki/Computer_system), [networks](http://en.wikipedia.org/wiki/Computer_network), and data, from malware or breaches of privacy. Browser security exploits often use [JavaScript](http://en.wikipedia.org/wiki/JavaScript) - sometimes with [cross-site scripting](http://en.wikipedia.org/wiki/Cross-site_scripting) (XSS)[[1]](http://en.wikipedia.org/wiki/Browser_security#cite_note-mozilla-noscript-0) - sometimes with a secondary payload using [Adobe Flash](http://en.wikipedia.org/wiki/Adobe_Flash),[[2]](http://en.wikipedia.org/wiki/Browser_security#cite_note-mozilla-betterprivacy-1) but can also take advantage of many other [vulnerabilities](http://en.wikipedia.org/wiki/Vulnerability_(computing)) (security holes) that are commonly exploited in all browsers; including [Mozilla Firefox](http://en.wikipedia.org/wiki/Mozilla_Firefox),[[3]](http://en.wikipedia.org/wiki/Browser_security#cite_note-Firefox_vulnerability_confirmed-2) [Google Chrome](http://en.wikipedia.org/wiki/Google_Chrome),[[4]](http://en.wikipedia.org/wiki/Browser_security#cite_note-Chrome_dirty_dozen-3) [Opera](http://en.wikipedia.org/wiki/Opera_(web_browser))[[5]](http://en.wikipedia.org/wiki/Browser_security#cite_note-Opera_severe_hole-4) and  [Microsoft Internet Explorer](http://en.wikipedia.org/wiki/Microsoft_Internet_Explorer).[[6]](http://en.wikipedia.org/wiki/Browser_security#cite_note-time_to_drop_IE6-5)

Breaches of browser security are usually for the purpose of bypassing protections to display [pop-up advertising](http://en.wikipedia.org/wiki/Pop-up_advertising)[[7]](http://en.wikipedia.org/wiki/Browser_security#cite_note-mozilla-adblock-plus-6) collecting [personally identifiable information](http://en.wikipedia.org/wiki/Personally_identifiable_information) (PII) for either [internet marketing](http://en.wikipedia.org/wiki/Internet_marketing) or [identity theft](http://en.wikipedia.org/wiki/Identity_theft), [website tracking](http://en.wikipedia.org/wiki/Website_tracking) or [web analytics](http://en.wikipedia.org/wiki/Web_analytics) about a user against their will using tools such as [webvbugs](http://en.wikipedia.org/wiki/Web_bug), [Clickjacking](http://en.wikipedia.org/wiki/Clickjacking), [Likejacking](http://en.wikipedia.org/wiki/Likejacking) (where [Facebook](http://en.wikipedia.org/wiki/Facebook)'s [like button](http://en.wikipedia.org/wiki/Like_button) is targeted)[[8]](http://en.wikipedia.org/wiki/Browser_security#cite_note-7)[[9]](http://en.wikipedia.org/wiki/Browser_security#cite_note-8)[[10]](http://en.wikipedia.org/wiki/Browser_security#cite_note-cnet-privacy-scrutiny-9)[[11]](http://en.wikipedia.org/wiki/Browser_security#cite_note-10), [HTTP cookies](http://en.wikipedia.org/wiki/HTTP_cookie), [zombie cookies](http://en.wikipedia.org/wiki/Zombie_cookie) or [Flash cookies](http://en.wikipedia.org/wiki/Local_shared_object) (Local Shared Objects or LSOs);[[2]](http://en.wikipedia.org/wiki/Browser_security#cite_note-mozilla-betterprivacy-1) installing [adware](http://en.wikipedia.org/wiki/Adware), [viruses](http://en.wikipedia.org/wiki/Viruses), [spyware](http://en.wikipedia.org/wiki/Spyware) such as [Trojan horses](http://en.wikipedia.org/wiki/Trojan_horse_(computing)) (to gain access to users' [personal computers](http://en.wikipedia.org/wiki/Personal_computer) via [cracking](http://en.wikipedia.org/wiki/Cracker_(computer_security))) or other [malware](http://en.wikipedia.org/wiki/Malware) including [online banking](http://en.wikipedia.org/wiki/Online_banking) theft using [man-in-the-browser](http://en.wikipedia.org/wiki/Man-in-the-browser) attacks.

Vulnerabilities in the browser software itself can be minimised by keeping browser software updated, [[12]](http://en.wikipedia.org/wiki/Browser_security#cite_note-11) but will not be sufficient if the underlying operating system is compromised, for example, by a rootkit.[[13]](http://en.wikipedia.org/wiki/Browser_security#cite_note-12) Some subcomponents of browsers such as scripting, add-ons, and cookiesare particularly vulnerable ("the [confused deputy problem](http://en.wikipedia.org/wiki/Confused_deputy_problem)") and also need to be addressed.

Following the principle of [defence in depth](http://en.wikipedia.org/wiki/Defence_in_depth), a fully patched and correctly configured browser may not be sufficient to ensure that browser-related security issues cannot occur. For example, a [rootkit](http://en.wikipedia.org/wiki/Rootkit) can [capture keystrokes](http://en.wikipedia.org/wiki/Keystroke_logger) while someone logs into a banking website, or carry out a [man-in-the-middle](http://en.wikipedia.org/wiki/Man-in-the-middle) attack by modifying network traffic to and from a web browser. [DNS hijacking](http://en.wikipedia.org/wiki/DNS_hijacking) or [DNS spoofing](http://en.wikipedia.org/wiki/DNS_spoofing) may be used to return false positives for mistyped website names, or to subvert search results for popular search engines. Malware such as [RSPlug](http://en.wikipedia.org/wiki/RSPlug) simply modifies a system's configuration to point at rogue DNS servers.

Browsers can use more secure methods of [network communication](http://en.wikipedia.org/wiki/Network_protocols) to help prevent some of these attacks:

* [DNS](http://en.wikipedia.org/wiki/Domain_Name_System): [DNSSec](http://en.wikipedia.org/wiki/DNSSec) and [DNSCrypt](http://en.wikipedia.org/wiki/DNSCrypt), for example with non-default [DNS servers](http://en.wikipedia.org/wiki/DNS_server) such as [Google Public DNS](http://en.wikipedia.org/wiki/Google_Public_DNS) or [OpenDNS](http://en.wikipedia.org/wiki/OpenDNS).
* [HTTP](http://en.wikipedia.org/wiki/HTTP): [HTTP Secure](http://en.wikipedia.org/wiki/HTTP_Secure) and [SPDY](http://en.wikipedia.org/wiki/SPDY) with digitally signed [public key certificates](http://en.wikipedia.org/wiki/Public_key_certificate) or [Extended Validation Certificates](http://en.wikipedia.org/wiki/Extended_Validation_Certificate).

Perimeter defenses, typically through firewalls and the use of [filtering](http://en.wikipedia.org/wiki/Content-control_software) [proxy servers](http://en.wikipedia.org/wiki/Proxy_server) that block malicious websites and perform antivirus scans of any file downloads, are commonly implemented as a best practice in large organisations to block malicious network traffic before it reaches a browser.

## Firewall

A **firewall** can either be software-based or hardware-based and is used to help keep a network secure. Its primary objective is to control the incoming and outgoing network traffic by analyzing the data packets and determining whether it should be allowed through or not, based on a predetermined rule set. A network's firewall builds a bridge between an internal network that is assumed to be secure and trusted, and another network, usually an external (inter)network, such as the Internet, that is not assumed to be secure and trusted.[[1]](http://en.wikipedia.org/wiki/Firewall_(computing)#cite_note-0)

Many personal computer [operating systems](http://en.wikipedia.org/wiki/Operating_system) include software-based firewalls to protect against threats from the public Internet. Many [routers](http://en.wikipedia.org/wiki/Router_(computing)) that pass data between networks contain firewall components and, conversely, many firewalls can perform basic routing functions.[[2]](http://en.wikipedia.org/wiki/Firewall_(computing)#cite_note-1)

***Types***

There are different types of firewalls depending on where the communication is taking place, where the communication is intercepted and the state that is being traced.[[13]](http://en.wikipedia.org/wiki/Firewall_(computing)#cite_note-12)

**Network layer or packet filters**

Network layer firewalls, also called packet filters, operate at a relatively low level of the [TCP/IP](http://en.wikipedia.org/wiki/Internet_protocol_suite) [protocol stack](http://en.wikipedia.org/wiki/Protocol_stack), not allowing packets to pass through the firewall unless they match the established rule set. The firewall administrator may define the rules; or default rules may apply. The term "packet filter" originated in the context of [BSD](http://en.wikipedia.org/wiki/BSD) [operating systems](http://en.wikipedia.org/wiki/Operating_systems).

Modern firewalls can filter traffic based on many packet attributes like source [IP address](http://en.wikipedia.org/wiki/IP_address), source [port](http://en.wikipedia.org/wiki/TCP_and_UDP_port), destination IP address or port, destination service like [WWW](http://en.wikipedia.org/wiki/World_Wide_Web) or [FTP](http://en.wikipedia.org/wiki/File_transfer_protocol). They can filter based on protocols, [TTL](http://en.wikipedia.org/wiki/Time_to_live) values, [netblock](http://en.wikipedia.org/w/index.php?title=Netblock&action=edit&redlink=1) of originator, of the source, and many other attributes.

Commonly used packet filters on various versions of Unix are [*ipf*](http://en.wikipedia.org/wiki/IPFilter) (various), [*ipfw*](http://en.wikipedia.org/wiki/Ipfirewall) ([FreeBSD](http://en.wikipedia.org/wiki/FreeBSD)/[Mac OS X](http://en.wikipedia.org/wiki/Mac_OS_X)), [*pf*](http://en.wikipedia.org/wiki/PF_(firewall)) ([OpenBSD](http://en.wikipedia.org/wiki/OpenBSD), and all other [BSDs](http://en.wikipedia.org/wiki/BSD)), [*iptables*](http://en.wikipedia.org/wiki/Netfilter)/[*ipchains*](http://en.wikipedia.org/wiki/Ipchains) ([Linux](http://en.wikipedia.org/wiki/Linux)).

**Application-layer**

Application-layer firewalls work on the application level of the TCP/IP stack (i.e., all browser traffic, or all [telnet](http://en.wikipedia.org/wiki/Telnet) or [ftp](http://en.wikipedia.org/wiki/Ftp) traffic), and may intercept all packets traveling to or from an application. They block other packets (usually dropping them without acknowledgment to the sender).

On inspecting all packets for improper content, firewalls can restrict or prevent outright the spread of networked [computer worms](http://en.wikipedia.org/wiki/Computer_worm) and [trojans](http://en.wikipedia.org/wiki/Trojan_horse_(computing)). The additional inspection criteria can add extra latency to the forwarding of packets to their destination.

Application firewalls function by determining whether a process should accept any given connection.

**Proxies**

A proxy server (running either on dedicated hardware or as software on a general-purpose machine) may act as a firewall by responding to input packets (connection requests, for example) in the manner of an application, while blocking other packets. A proxy server is a gateway from one network to another for a specific network application, in the sense that it functions as a proxy on behalf of the network user.[[15]](http://en.wikipedia.org/wiki/Firewall_(computing)#cite_note-14)

Proxies make tampering with an internal system from the external network more difficult and misuse of one internal system would not necessarily cause a security breach exploitable from outside the firewall (as long as the application proxy remains intact and properly configured). Conversely, intruders may [hijack](http://en.wiktionary.org/wiki/Hijack) a publicly-reachable system and use it as a proxy for their own purposes; the proxy then [masquerades](http://en.wikipedia.org/wiki/Spoofing_attack) as that system to other internal machines. While use of internal address spaces enhances security, [crackers](http://en.wikipedia.org/wiki/Security_cracking) may still employ methods such as [IP spoofing](http://en.wikipedia.org/wiki/IP_spoofing) to attempt to pass packets to a target network.

**Network address translation**

Firewalls often have [network address translation](http://en.wikipedia.org/wiki/Network_address_translation) (NAT) functionality, and the hosts protected behind a firewall commonly have addresses in the "private address range", as defined in [RFC 1918](http://tools.ietf.org/html/rfc1918). Firewalls often have such functionality to hide the true address of protected hosts. Originally, the NAT function was developed to address the limited number of IPv4 routable addresses that could be used or assigned to companies or individuals as well as reduce both the amount and therefore cost of obtaining enough public addresses for every computer in an organization. Hiding the addresses of protected devices has become an increasingly important defense against [network reconnaissance](http://en.wikipedia.org/wiki/Vulnerability_scanner).

## Antivirus

**Antivirus** or **anti-virus software** is [software](http://en.wikipedia.org/wiki/Software) used to prevent, detect and remove [malware](http://en.wikipedia.org/wiki/Malware), such as: [computer viruses](http://en.wikipedia.org/wiki/Computer_virus), [adware](http://en.wikipedia.org/wiki/Adware), [backdoors](http://en.wikipedia.org/wiki/Backdoor_(computing)), malicious [BHOs](http://en.wikipedia.org/wiki/Browser_Helper_Object), [dialers](http://en.wikipedia.org/wiki/Dialer), [fraudtools](http://en.wikipedia.org/wiki/Fraudtool), [hijackers](http://en.wikipedia.org/wiki/Browser_hijacking), [keyloggers](http://en.wikipedia.org/wiki/Keylogger), malicious [LSPs](http://en.wikipedia.org/wiki/Layered_Service_Provider), [rootkits](http://en.wikipedia.org/wiki/Rootkit), [spyware](http://en.wikipedia.org/wiki/Spyware), [trojan horses](http://en.wikipedia.org/wiki/Trojan_horse_(computing)) and [worms](http://en.wikipedia.org/wiki/Computer_worm). [Computer security](http://en.wikipedia.org/wiki/Computer_security), including protection from [social engineering](http://en.wikipedia.org/wiki/Social_engineering_(security)) techniques, is commonly offered in products and services of antivirus software companies. This page discusses the software used for the prevention and removal of malware [threats](http://en.wikipedia.org/wiki/Threat_(computer)), rather than computer security implemented by software methods.

A variety of strategies are typically employed. Signature-based detection involves searching for known patterns of data within [executable code](http://en.wikipedia.org/wiki/Executable_code). However, it is possible for a computer to be infected with new malware for which no signature is yet known. To [counter](http://en.wikipedia.org/wiki/Countermeasure_(computer)) such so-called [zero-day threats](http://en.wikipedia.org/wiki/Zero-day_virus), [heuristics](http://en.wikipedia.org/wiki/Heuristics#Computer_science) can be used. One type of heuristic approach, generic signatures, can identify new viruses or variants of existing viruses by looking for known malicious code, or slight variations of such code, in files. Some antivirus software can also predict what a file will do by running it in a [sandbox](http://en.wikipedia.org/wiki/Sandbox_(computer_security)) and analyzing what it does to see if it performs any malicious actions.

No matter how useful antivirus software can be, it can sometimes have drawbacks. Antivirus software can impair a [computer's performance](http://en.wikipedia.org/wiki/Computer_performance). Inexperienced users may also have trouble understanding the prompts and decisions that antivirus software presents them with. An incorrect decision may lead to a security breach. If the antivirus software employs heuristic detection, success depends on achieving the right balance between [false positives](http://en.wikipedia.org/wiki/False_positive) and [false negatives](http://en.wikipedia.org/wiki/False_negative). False positives can be as destructive as false negatives.[[1]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-0) Finally, antivirus software generally runs at the highly trusted [kernel](http://en.wikipedia.org/wiki/Kernel_(computing)) level of the [operating system](http://en.wikipedia.org/wiki/Operating_system), creating a potential avenue of [attack](http://en.wikipedia.org/wiki/Attack_(computing)).[[2]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-1)

Installed antivirus software running on an individual computer is only one method of guarding against viruses. Other methods are also used, including cloud-based antivirus, firewalls and on-line scanners.

**Cloud antivirus**

Cloud antivirus is a technology that uses lightweight agent software on the protected computer, while offloading the majority of data analysis to the provider's infrastructure.[[59]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-58)

One approach to implementing cloud antivirus involves scanning suspicious files using multiple antivirus engines. This approach was proposed by an early implementation of the cloud antivirus concept called CloudAV. CloudAV was designed to send programs or documents to a [network cloud](http://en.wikipedia.org/wiki/Cloud_computing) where multiple antivirus and behavioral detection programs are used simultaneously in order to improve detection rates. Parallel scanning of files using potentially incompatible antivirus scanners is achieved by spawning a virtual machine per detection engine and therefore eliminating any possible issues. CloudAV can also perform "retrospective detection," whereby the cloud detection engine rescans all files in its file access history when a new threat is identified thus improving new threat detection speed. Finally, CloudAV is a solution for effective virus scanning on devices that lack the computing power to perform the scans themselves.[60]

**Network firewall**

[Network firewalls](http://en.wikipedia.org/wiki/Firewall_(computing)) prevent unknown programs and processes from accessing the system. However, they are not antivirus systems and make no attempt to identify or remove anything. They may protect against infection from outside the protected computer or [network](http://en.wikipedia.org/wiki/LAN), and limit the activity of any malicious software which is present by blocking incoming or outgoing requests on certain TCP/IP ports. A firewall is designed to deal with broader system threats that come from network connections into the system and is not an alternative to a virus protection system.

**Online scanning**

Some antivirus vendors maintain websites with free online scanning capability of the entire computer, critical areas only, local disks, folders or files. Periodic online scanning is a good idea for those that run antivirus applications on their computers because those applications are frequently slow to catch threats. One of the first things that malicious software does in an attack is disable any existing antivirus software and sometimes the only way to know of an attack is by turning to an online resource that is not installed on the infected computer.[[61]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-60)

**Specialist tools**

Virus removal tools are available to help remove stubborn infections or certain types of infection. Examples include [Trend Micro](http://en.wikipedia.org/wiki/Trend_Micro)'s *Rootkit Buster*,[[62]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-61) and [rkhunter](http://en.wikipedia.org/wiki/Rkhunter) for the detection of [rootkits](http://en.wikipedia.org/wiki/Rootkit), [Avira](http://en.wikipedia.org/wiki/Avira)'s *AntiVir Removal Tool*,[[63]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-antivir-62) [*PCTools*](http://en.wikipedia.org/wiki/PC_Tools_(company))*Threat Removal Tool*,[[64]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-63) and [AVG](http://en.wikipedia.org/wiki/AVG_(software))'s Anti-Virus Free 2011.[[65]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-64)

A rescue disk that is bootable, such as a CD or USB storage device, can be used to run antivirus software outside of the installed operating system, in order to remove infections while they are dormant. A bootable antivirus disk can be useful when, for example, the installed operating system is no longer bootable or has malware that is resisting all attempts to be removed by the installed antivirus software. Examples of some of these bootable disks include the [*Avira*](http://en.wikipedia.org/wiki/Avira) *AntiVir Rescue System*,[[63]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-antivir-62) [*PCTools*](http://en.wikipedia.org/wiki/PC_Tools_(company))*Alternate Operating System Scanner*,[[66]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-65) and [*AVG*](http://en.wikipedia.org/wiki/AVG_(software))*Rescue CD*.[[67]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-avgcd-66) The AVG Rescue CD software can also be installed onto a USB storage device that is bootable on newer computers.[[67]](http://en.wikipedia.org/wiki/Antivirus_software#cite_note-avgcd-66)

## 

## Anti-spyware programs

Many programmers and some commercial firms have released products dedicated to remove or block spyware. Programs such as PC Tools' [Spyware Doctor](http://en.wikipedia.org/wiki/Spyware_Doctor), Lavasoft's [*Ad-Aware SE*](http://en.wikipedia.org/wiki/Ad-Aware_SE) (free scans for non-commercial users, must pay for other features) and Patrick Kolla's [*Spybot - Search & Destroy*](http://en.wikipedia.org/wiki/Spybot_-_Search_%26_Destroy) (all features free for non-commercial use) rapidly gained popularity as effective tools to remove, and in some cases intercept, spyware programs. On December 16, 2004, [Microsoft](http://en.wikipedia.org/wiki/Microsoft) acquired the [*GIANT AntiSpyware*](http://en.wikipedia.org/wiki/GIANT_AntiSpyware) software,[[57]](http://en.wikipedia.org/wiki/Spyware#cite_note-56) rebranding it as *Windows AntiSpyware beta* and releasing it as a free download for Genuine Windows XP and Windows 2003 users. In 2006, [Microsoft](http://en.wikipedia.org/wiki/Microsoft) renamed the beta software to [Windows Defender](http://en.wikipedia.org/wiki/Windows_Defender) (free), and it was released as a free download in October 2006 and is included as standard with Windows Vista as well as Windows 7.

Major anti-virus firms such as [Symantec](http://en.wikipedia.org/wiki/Symantec), [PC Tools](http://en.wikipedia.org/wiki/PC_Tools_(company)), [McAfee](http://en.wikipedia.org/wiki/McAfee) and [Sophos](http://en.wikipedia.org/wiki/Sophos) have come later to the table, adding anti-spyware features to their existing anti-virus products. Early on, anti-virus firms expressed reluctance to add anti-spyware functions, citing lawsuits brought by spyware authors against the authors of web sites and programs which described their products as "spyware". However, recent versions of these major firms' home and business anti-virus products do include anti-spyware functions, albeit treated differently from viruses. Symantec Anti-Virus, for instance, categorizes spyware programs as "extended threats" and now offers [real-time protection](http://en.wikipedia.org/wiki/Real-time_protection) from them (as it does for viruses).

In June 2006, the anti-virus company [Grisoft](http://en.wikipedia.org/wiki/Grisoft), creator of [AVG Anti-Virus](http://en.wikipedia.org/wiki/AVG_Anti-Virus), acquired anti-spyware firm Ewido Networks, re-labeling their Ewido anti-spyware program as AVG Anti-Spyware Professional Edition. AVG also used this product to add an integrated anti-spyware solution to some versions of the [AVG Anti-Virus](http://en.wikipedia.org/wiki/AVG_Anti-Virus) family of products, and a [freeware](http://en.wikipedia.org/wiki/Freeware) AVG Anti-Spyware Free Edition available for private and non-commercial use. This shows a trend by anti virus companies to launch a dedicated solution to spyware and malware. Zone Labs, creator of [Zone Alarm](http://en.wikipedia.org/wiki/Zone_Alarm) [firewall](http://en.wikipedia.org/wiki/Firewall_(computing)) have also released an anti-spyware program.

Anti-spyware programs can combat spyware in two ways:

1. They can provide real time protection against the installation of spyware software on the computer. This type of spyware protection works the same way as that of anti-virus protection in that the anti-spyware software scans all incoming network data for spyware software and blocks any threats it comes across.
2. Anti-spyware software programs can be used solely for detection and removal of spyware software that has already been installed onto the computer. This type of spyware protection is normally much easier to use and more popular. With this spyware protection software the user can schedule weekly, daily, or monthly scans of the computer to detect and remove any spyware software that have been installed on the computer. This type of anti-spyware software scans the contents of the windows registry, operating system files, and installed programs on the computer and will provide a list of any threats found, allowing the user to choose what to delete and what to keep.

Such programs inspect the contents of the Windows registry, the operating system files, and installed programs, and remove files and entries which match a list of known spyware components. Real-time protection from spyware works identically to real-time anti-virus protection: the software scans disk files at download time, and blocks the activity of components known to represent spyware. In some cases, it may also intercept attempts to install start-up items or to modify browser settings. Because many spyware and adware are installed as a result of browser exploits or user error, using security software (some of which are antispyware, though many are not) to [sandbox](http://en.wikipedia.org/wiki/Sandbox_(computer_security)) browsers can also be effective to help restrict any damage done.

Like most anti-virus software, many anti-spyware/adware tools require a frequently-updated database of threats. As new spyware programs are released, anti-spyware developers discover and evaluate them, making "signatures" or "definitions" which allow the software to detect and remove the spyware. As a result, anti-spyware software is of limited usefulness without a regular source of updates. Some vendors provide a subscription-based update service, while others provide updates free. Updates may be installed automatically on a schedule or before doing a scan, or may be done manually.

Not all programs rely on updated definitions. Some programs rely partly (for instance many antispyware programs such as Windows Defender, [Spybot](http://en.wikipedia.org/wiki/Spybot_-_Search_%26_Destroy)'s TeaTimer and Spysweeper) or fully (programs falling under the class of [HIPS](http://en.wikipedia.org/wiki/Intrusion-prevention_system) such as BillP's WinPatrol) on historical observation. They watch certain configuration parameters (such as certain portions of the Windows registry or browser configuration) and report any change to the user, without judgment or recommendation. While they do not rely on updated definitions, which may allow them to spot newer spyware, they can offer no guidance. The user is left to determine "what did I just do, and is this configuration change appropriate?"

[Windows Defender](http://en.wikipedia.org/wiki/Windows_Defender)'s SpyNet attempts to alleviate this through offering a community to share information, which helps guide both users, who can look at decisions made by others, and analysts, who can spot fast-spreading spyware. A popular generic spyware removal tool used by those with a certain degree of expertise is [HijackThis](http://en.wikipedia.org/wiki/HijackThis), which scans certain areas of the Windows OS where spyware often resides and presents a list with items to delete manually. As most of the items are legitimate windows files/registry entries it is advised for those who are less knowledgeable on this subject to post a HijackThis log on the numerous antispyware sites and let the experts decide what to delete.

If a spyware program is not blocked and manages to get itself installed, it may resist attempts to terminate or uninstall it. Some programs work in pairs: when an anti-spyware scanner (or the user) terminates one running process, the other one respawns the killed program. Likewise, some spyware will detect attempts to remove registry keys and immediately add them again. Usually, booting the infected computer in [safe mode](http://en.wikipedia.org/wiki/Safe_mode) allows an anti-spyware program a better chance of removing persistent spyware. Killing the process tree may also work.

A new breed of spyware (Look2Me spyware by NicTechNetworks is a good example) hides inside system-critical processes and start up even in safe mode, see [rootkit](http://en.wikipedia.org/wiki/Rootkit). With no process to terminate they are harder to detect and remove. Sometimes they do not even leave any on-disk signatures. [Rootkit](http://en.wikipedia.org/wiki/Rootkit) technology is also seeing increasing use,[[58]](http://en.wikipedia.org/wiki/Spyware#cite_note-rootkit-57) as is the use of [NTFS](http://en.wikipedia.org/wiki/NTFS) [alternate data streams](http://en.wikipedia.org/wiki/Fork_(filesystem)). Newer spyware programs also have specific countermeasures against well known anti-malware products and may prevent them from running or being installed, or even uninstall them. An example of one that uses all three methods is Gromozon, a new breed of malware. It uses alternate data streams to hide. A [rootkit](http://en.wikipedia.org/wiki/Rootkit) hides it even from alternate data streams scanners and actively stops popular [rootkit](http://en.wikipedia.org/wiki/Rootkit) scanners from running.

## 

## Encryption software

**Encryption software** is [software](http://en.wikipedia.org/wiki/Software) whose main task is [encryption](http://en.wikipedia.org/wiki/Encryption) and [decryption](http://en.wikipedia.org/wiki/Decryption) of data, usually in the form of files on (or sectors of) [hard drives](http://en.wikipedia.org/wiki/Hard_drive) and [removable media](http://en.wikipedia.org/wiki/Removable_media), [email](http://en.wikipedia.org/wiki/Email) messages, or in the form of packets sent over [computer networks](http://en.wikipedia.org/wiki/Computer_network).

Encryption software executes an [algorithm](http://en.wikipedia.org/wiki/Algorithm) that is designed to [encrypt](http://en.wikipedia.org/wiki/Encrypt) computer data in such a way that it cannot be recovered without access to the key. Software encryption is a fundamental part of all aspects of modern computer communication and file protection and may include features like file shredding.

The purpose of encryption is to prevent third parties from recovering the original information. This is particularly important for sensitive data like credit card numbers.

## Vulnerability scanner

A **vulnerability scanner** is a [computer program](http://en.wikipedia.org/wiki/Computer_program) designed to assess computers, computer systems, [networks](http://en.wikipedia.org/wiki/Computer_network) or [applications](http://en.wikipedia.org/wiki/Application_software) for weaknesses. There are a number of types of vulnerability scanners available today, distinguished from one another by a focus on particular targets. While functionality varies between different types of vulnerability scanners, they share a common, core purpose of enumerating the vulnerabilities present in one or more targets. Vulnerability scanners are a core technology component of [vulnerability management](http://en.wikipedia.org/wiki/Vulnerability_management).

## System vulnerability and abuse

In [computer security](http://en.wikipedia.org/wiki/Computer_security), a **vulnerability** is a weakness which allows an [attacker](http://en.wikipedia.org/wiki/Hacker_(computer_security)) to reduce a system's [information assurance](http://en.wikipedia.org/wiki/Information_assurance).

There are different types of vulnerability. The most known are:

* A **computer virus** is a [computer program](http://en.wikipedia.org/wiki/Computer_program) that can replicate itself [[1]](http://en.wikipedia.org/wiki/Threat_of_internet_viruses#cite_note-vx.netlux.org-0) and spread from one computer to another. The term "virus" is also commonly, but erroneously, used to refer to other types of [malware](http://en.wikipedia.org/wiki/Malware), including but not limited to [adware](http://en.wikipedia.org/wiki/Adware) and [spyware](http://en.wikipedia.org/wiki/Spyware) programs that do not have a reproductive ability.

[Malware](http://en.wikipedia.org/wiki/Malware) includes computer viruses, [computer worms](http://en.wikipedia.org/wiki/Computer_worm), [Trojan horses](http://en.wikipedia.org/wiki/Trojan_horse_(computing)), most [rootkits](http://en.wikipedia.org/wiki/Rootkit), [spyware](http://en.wikipedia.org/wiki/Spyware), dishonest [adware](http://en.wikipedia.org/wiki/Adware) and other malicious or unwanted software, including true viruses. Viruses are sometimes confused with worms and Trojan horses, which are technically different. A worm can exploit security [vulnerabilities](http://en.wikipedia.org/wiki/Vulnerability_(computing)) to spread itself automatically to other computers through networks, while a Trojan horse is a program that appears harmless but hides malicious functions. Worms and Trojan horses, like viruses, may harm a computer system's data or performance. Some viruses and other malware have symptoms noticeable to the computer user, but many are surreptitious or simply do nothing to call attention to themselves. Some viruses do nothing beyond reproducing themselves.

***Classification***

In order to replicate itself, a virus must be permitted to execute code and write to memory. For this reason, many viruses attach themselves to executable files that may be part of legitimate programs (see [code injection](http://en.wikipedia.org/wiki/Code_injection)). If a user attempts to launch an infected program, the virus' code may be executed simultaneously. Viruses can be divided into two types based on their behavior when they are executed. Nonresident viruses immediately search for other hosts that can be infected, infect those targets, and finally transfer control to the [application program](http://en.wikipedia.org/wiki/Application_software) they infected. Resident viruses do not search for hosts when they are started. Instead, a resident virus loads itself into memory on execution and transfers control to the host program. The virus stays active in the background and infects new hosts when those files are accessed by other programs or the operating system itself.

**Nonresident viruses**

Nonresident viruses can be thought of as consisting of a *finder module* and a *replication module*. The finder module is responsible for finding new files to infect. For each new executable file the finder module encounters, it calls the replication module to infect that file.

**Resident viruses**

Resident viruses contain a replication module that is similar to the one that is employed by nonresident viruses. This module, however, is not called by a finder module. The virus loads the replication module into memory when it is executed instead and ensures that this module is executed each time the operating system is called to perform a certain operation.

* A **computer worm** is a standalone [malware](http://en.wikipedia.org/wiki/Malware) [computer program](http://en.wikipedia.org/wiki/Computer_program) that replicates itself in order to spread to other computers. Often, it uses a [computer network](http://en.wikipedia.org/wiki/Computer_network) to spread itself. This is due to security shortcomings on the target computer. Unlike a [computer virus](http://en.wikipedia.org/wiki/Computer_virus), it does not need to attach itself to an existing program. Worms almost always cause at least some harm to the network, even if only by consuming [bandwidth](http://en.wikipedia.org/wiki/Bandwidth_(computing)), whereas viruses almost always corrupt or modify files on a targeted computer.
* A **Trojan horse**, or **Trojan**, is a standalone malicious file or program that does not attempt to inject itself into other files unlike a [computer virus](http://en.wikipedia.org/wiki/Computer_virus) and often masquerades as a legitimate file or program. Trojan horses can make copies of themselves, steal information, or harm their host computer systems.[[1]](http://en.wikipedia.org/wiki/Trojan_horse_(computing)#cite_note-0) The first and many current Trojan horses attempt to appear as helpful programs. Others rely on [drive-by downloads](http://en.wikipedia.org/wiki/Drive-by_download) in order to reach target computers.

**Purpose and uses**

A Trojan may give a [hacker](http://en.wikipedia.org/wiki/Hacker_(computer_security)) remote access to a targeted computer system. Once a Trojan has been installed on a targeted computer system, hackers may be given remote access to the computer allowing them to perform all kinds of operations. Operations that could be performed by a hacker on a targeted computer system may include but are not limited to:

* Use of the machine as part of a [botnet](http://en.wikipedia.org/wiki/Botnet) (e.g. to perform automated [spamming](http://en.wikipedia.org/wiki/Spam_(electronic)) or to [distribute Denial-of-service attacks](http://en.wikipedia.org/wiki/Denial-of-service_attack#Distributed_attack))
* [Electronic money](http://en.wikipedia.org/wiki/Electronic_money) theft[[7]](http://en.wikipedia.org/wiki/Trojan_horse_(computing)#cite_note-6)
* [Data theft](http://en.wikipedia.org/wiki/Data_theft) (e.g. retrieving passwords or credit card information)
* Installation of software, including third-party malware
* [Downloading or uploading](http://en.wikipedia.org/wiki/Uploading_and_downloading) of files on the user's computer
* Modification or [deletion of files](http://en.wikipedia.org/wiki/File_deletion)
* [Keystroke logging](http://en.wikipedia.org/wiki/Keystroke_logging)
* [Watching the user's screen](http://en.wikipedia.org/wiki/Data_scraping#Screen_scraping)
* [Crashing the computer](http://en.wikipedia.org/wiki/Crash_(computing))
* [Anonymizing internet viewing](http://en.wikipedia.org/wiki/Anonymous_web_browsing)

Trojan horses in this way may require interaction with a [hacker](http://en.wikipedia.org/wiki/Hacker_(computer_security)) to fulfill their purpose, though the hacker does not have to be the individual responsible for distributing the Trojan horse. It is possible for individual hackers to scan computers on a network using a [port scanner](http://en.wikipedia.org/wiki/Port_scanner) in the hope of finding one with a malicious Trojan horse installed, which the hacker can then use to control the target computer.[[8]](http://en.wikipedia.org/wiki/Trojan_horse_(computing)#cite_note-Crapanzano-7)

A recent innovation in Trojan horse code takes advantage of a security flaw in older versions of Internet Explorer and Google Chrome to use the host computer as an [anonymizer proxy](http://en.wikipedia.org/wiki/Anonymizer) to effectively hide internet usage. A [hacker](http://en.wikipedia.org/wiki/Hacker_(computer_security)) is able to view internet sites while the tracking cookies, internet history, and any IP logging are maintained on the host computer. The host's computer may or may not show the internet history of the sites viewed using the computer as a proxy. The first generation of anonymizer Trojan horses tended to leave their tracks in the page view histories of the host computer. Newer generations of the Trojan horse tend to "cover" their tracks more efficiently. Several versions of [Slavebot](http://en.wikipedia.org/w/index.php?title=Slavebot&action=edit&redlink=1) have been widely circulated in the US and Europe and are the most widely distributed examples of this type of Trojan horse.[[8]](http://en.wikipedia.org/wiki/Trojan_horse_(computing)#cite_note-Crapanzano-7)

**Popular Trojan horses**

* Netbus (by Carl-Fredrik Neikter)
* Subseven or [Sub7](http://en.wikipedia.org/wiki/Sub7)(by Mobman)
* Y3K Remote Administration Tool (by Konstantinos & Evangelos Tselentis)
* Back Orifice (Sir Dystic)
* [Beast](http://en.wikipedia.org/wiki/Beast_Trojan_(trojan_horse))
* [Zeus](http://en.wikipedia.org/wiki/Zeus_(Trojan_horse))
* The [Blackhole exploit kit](http://en.wikipedia.org/wiki/Blackhole_exploit_kit)[[11]](http://en.wikipedia.org/wiki/Trojan_horse_(computing)#cite_note-10)
* Flashback Trojan (Trojan.BackDoor.Flashback)
* A **rootkit** is software that implements stealth capabilities that are designed to hide the existence of certain processes or programs. While some uses of the technology may be beneficial, the most notable usage is by [malware](http://en.wikipedia.org/wiki/Malware) seeking to avoid detection by [antivirus software](http://en.wikipedia.org/wiki/Antivirus_software).[[1]](http://en.wikipedia.org/wiki/Rootkits#cite_note-McAfee1-0)

Rootkit installation can be automated, or an [attacker](http://en.wikipedia.org/wiki/Hacker_(computer_security)) can install it once they've obtained root or Administrator access. Obtaining this access is either a result of direct attack on a system (i.e. exploiting a known vulnerability, password (either by [cracking](http://en.wikipedia.org/wiki/Password_cracking), [privilege escalation](http://en.wikipedia.org/wiki/Privilege_escalation), or [social engineering](http://en.wikipedia.org/wiki/Social_engineering_(security))). Once installed it becomes possible to hide the intrusion as well as to maintain privileged access. Like any software they can have a good purpose or a malicious purpose. The key is the root or Administrator access. Full control over a system means that existing software can be modified, including software that might otherwise be used to detect or circumvent it.

Rootkit detection is difficult because a rootkit may be able to subvert the software that is intended to find it. Detection methods include using an alternative, trusted [operating system](http://en.wikipedia.org/wiki/Operating_system); [behavioral](http://en.wikipedia.org/wiki/Behavioral#Computer_science)-based methods; signature scanning; difference scanning; and [memory dump](http://en.wikipedia.org/w/index.php?title=Sore_dump&action=edit&redlink=1) analysis. Removal can be complicated or practically impossible, especially in cases where the rootkit resides in the [kernel](http://en.wikipedia.org/wiki/Kernel_(computing)); reinstallation of the operating system may be the only available solution to the problem. When dealing with [firmware](http://en.wikipedia.org/wiki/Firmware) rootkits, removal may require hardware replacement, or specialised equipment.

* **Malware**, [short for](http://en.wikipedia.org/wiki/Portmanteau) **malicious software**, is software to help hackers disrupt users computer operation, gather sensitive information, or gain unauthorized access to a computer system. While it is often software, it can also appear in the form of [script](http://en.wikipedia.org/wiki/Script_(computing)) or [code](http://en.wikipedia.org/wiki/Source_code). [[1]](http://en.wikipedia.org/wiki/Malware#cite_note-0) 'Malware' is a general term used by computer professionals to mean a variety of forms of hostile, intrusive, or annoying software or code.[[2]](http://en.wikipedia.org/wiki/Malware#cite_note-1)

Malware includes [computer viruses](http://en.wikipedia.org/wiki/Computer_virus), [worms](http://en.wikipedia.org/wiki/Computer_worm), [trojan horses](http://en.wikipedia.org/wiki/Trojan_horse_(computing)), [spyware](http://en.wikipedia.org/wiki/Spyware), [adware](http://en.wikipedia.org/wiki/Adware), most [rootkits](http://en.wikipedia.org/wiki/Rootkit), and other malicious programs.

Malware is not the same as defective software, which is software that has a legitimate purpose but contains harmful [bugs](http://en.wikipedia.org/wiki/Software_bug) that were not noticed before release. Sometimes, malware is disguised as genuine software, and may come from an official company website. An example would be software used for useful purposes that also includes tracking software to gather marketing statistics for advertising.

Therefore, some security programs may find "potentially unwanted programs" or "PUP". Though a [computer virus](http://en.wikipedia.org/wiki/Computer_virus) is malware that can reproduce itself, the term is sometimes used erroneously to refer to the entire category.

* **Phishing** is attempting to acquire information (and sometimes, indirectly, money) such as usernames, [passwords](http://en.wikipedia.org/wiki/Password), and credit card details by masquerading as a trustworthy entity in an [electronic communication](http://en.wikipedia.org/wiki/Electronic_communication). Communications purporting to be from popular social web sites, auction sites, online payment processors or IT administrators are commonly used to lure the unsuspecting public. Phishing is typically carried out by [e-mail](http://en.wikipedia.org/wiki/E-mail) [spoofing](http://en.wikipedia.org/wiki/E-mail_spoofing) or [instant messaging](http://en.wikipedia.org/wiki/Instant_messaging),[[1]](http://en.wikipedia.org/wiki/Phising#cite_note-0) and it often directs users to enter details at a fake website whose [look and feel](http://en.wikipedia.org/wiki/Look_and_feel) are almost identical to the legitimate one. Phishing is an example of [social engineering](http://en.wikipedia.org/wiki/Social_engineering_(computer_security)) techniques used to deceive users,[[2]](http://en.wikipedia.org/wiki/Phising#cite_note-1) and exploits the poor usability of current web security technologies.[[3]](http://en.wikipedia.org/wiki/Phising#cite_note-Jos2007-2) Attempts to deal with the growing number of reported phishing incidents include [legislation](http://en.wikipedia.org/wiki/Legislation), user training, public awareness, and technical security measures.

**List of phishing techniques**

**Phishing**

[Phishing](http://en.wiktionary.org/wiki/phishing) is a way of attempting to acquire information such as usernames, [passwords](http://en.wikipedia.org/wiki/Password), and credit card details by masquerading as a trustworthy entity in an [electronic communication](http://en.wikipedia.org/wiki/Electronic_communication).

**Spear Phishing**

Phishing attempts directed at specific individuals or companies have been termed [**spearphishing**](http://en.wiktionary.org/wiki/spearphishing).[[30]](http://en.wikipedia.org/wiki/Phising#cite_note-29) Attackers may gather personal information about their target to increase their probability of success.

**Clone Phishing**

A type of phishing attack whereby a legitimate, and previously delivered, email containing an attachment or link has had its content and recipient address(es) taken and used to create an almost identical or [cloned](http://en.wiktionary.org/wiki/clone) email. The attachment or Link within the email is replaced with a malicious version and then sent from an email address spoofed to appear to come from the original sender. It may claim to be a re-send of the original or an updated version to the original.

This technique could be used to pivot (indirectly) from a previously infected machine and gain a foothold on another machine, by exploiting the social trust associated with the inferred connection due to both parties receiving the original email.

**Whaling**

Several recent phishing attacks have been directed specifically at senior executives and other high profile targets within businesses, and the term **whaling** has been coined for these kinds of attacks.[[31]](http://en.wikipedia.org/wiki/Phising#cite_note-30)

**Phone phishing**

Not all phishing attacks require a fake website. Messages that claimed to be from a bank told users to dial a phone number regarding problems with their bank accounts.[[45]](http://en.wikipedia.org/wiki/Phising#cite_note-44) Once the phone number (owned by the phisher, and provided by a [Voice over IP](http://en.wikipedia.org/wiki/Voice_over_IP) service) was dialed, prompts told users to enter their account numbers and PIN. [Vishing](http://en.wikipedia.org/wiki/Vishing) (voice phishing) sometimes uses fake caller-ID data to give the appearance that calls come from a trusted organization.[[46]](http://en.wikipedia.org/wiki/Phising#cite_note-45)

**Website forgery**

Once a victim visits the phishing website, the deception is not over. Some phishing scams use [JavaScript](http://en.wikipedia.org/wiki/JavaScript) commands in order to alter the [address bar](http://en.wikipedia.org/wiki/URL_bar).[[39]](http://en.wikipedia.org/wiki/Phising#cite_note-38) This is done either by placing a picture of a legitimate URL over the address bar, or by closing the original address bar and opening a new one with the legitimate URL.[[40]](http://en.wikipedia.org/wiki/Phising#cite_note-39)

An attacker can even use flaws in a trusted website's own scripts against the victim.[[41]](http://en.wikipedia.org/wiki/Phising#cite_note-40) These types of attacks (known as [cross-site scripting](http://en.wikipedia.org/wiki/Cross-site_scripting)) are particularly problematic, because they direct the user to sign in at their bank or service's own web page, where everything from the [web address](http://en.wikipedia.org/wiki/URL) to the [security certificates](http://en.wikipedia.org/wiki/Transport_Layer_Security) appears correct. In reality, the link to the website is crafted to carry out the attack, making it very difficult to spot without specialist knowledge. Just such a flaw was used in 2006 against [PayPal](http://en.wikipedia.org/wiki/PayPal).[[42]](http://en.wikipedia.org/wiki/Phising#cite_note-41)

* **Spyware** is a type of [malware](http://en.wikipedia.org/wiki/Malware) (malicious software) installed on [computers](http://en.wikipedia.org/wiki/Computer) that collects information about users without their knowledge. The presence of spyware is typically hidden from the user and can be difficult to detect. Spyware is often secretly installed on a user's [personal computer](http://en.wikipedia.org/wiki/Personal_computer) without their knowledge. However, some spyware such as [keyloggers](http://en.wikipedia.org/wiki/Keylogger) may be installed by the owner of a shared, corporate, or [public computer](http://en.wikipedia.org/wiki/Public_computer) on purpose in order to intentionally monitor users.

While the term *spyware* suggests software that monitors a user's computing, the functions of spyware can extend beyond simple monitoring. Spyware can collect almost any type of data, including [personal information](http://en.wikipedia.org/wiki/Personally_identifiable_information) like [Internet surfing](http://en.wikipedia.org/wiki/Internet_surfing) habits, user logins, and bank or credit account information. Spyware can also interfere with user control of a computer by installing additional software or redirecting [Web browsers](http://en.wikipedia.org/wiki/Web_browser). Some spyware can change computer settings, resulting in slow Internet connection speeds, un-authorized changes in browser settings or functionality of other software.

Sometimes, spyware is included along with genuine software, and may come from an official software vendor. In an attempt to increase the understanding of spyware, a more formal classification of its included software types is provided by the term [privacy-invasive software](http://en.wikipedia.org/wiki/Privacy-invasive_software). In response to the emergence of spyware, a small industry has sprung up dealing in [anti-spyware](http://en.wikipedia.org/wiki/Anti-spyware) software. Running anti-spyware software has become a widely recognized element of [computer security](http://en.wikipedia.org/wiki/Computer_security) practices for computers, especially those running [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows). A number of jurisdictions have passed anti-spyware laws, which usually target any software that is surreptitiously installed to control a user's computer.

* **Browser hijacking** is the modification of a [web browser](http://en.wikipedia.org/wiki/Web_browser)'s settings by [malware](http://en.wikipedia.org/wiki/Malware). The term "hijacking" is used as the changes are performed without the user's permission. Some browser hijacking can be easily reversed, while other instances may be difficult to reverse. Various software packages exist to prevent such modification.

## Defense strategies and safekeeping, ways to defend against potential threats

**Antivirus**

**Antivirus** or **anti-virus software** is [software](http://en.wikipedia.org/wiki/Software) used to prevent, detect and remove [malware](http://en.wikipedia.org/wiki/Malware), such as: [computer viruses](http://en.wikipedia.org/wiki/Computer_virus), [adware](http://en.wikipedia.org/wiki/Adware), [backdoors](http://en.wikipedia.org/wiki/Backdoor_(computing)), malicious [BHOs](http://en.wikipedia.org/wiki/Browser_Helper_Object), [dialers](http://en.wikipedia.org/wiki/Dialer), [fraudtools](http://en.wikipedia.org/wiki/Fraudtool), [hijackers](http://en.wikipedia.org/wiki/Browser_hijacking), [keyloggers](http://en.wikipedia.org/wiki/Keylogger), malicious [LSPs](http://en.wikipedia.org/wiki/Layered_Service_Provider), [rootkits](http://en.wikipedia.org/wiki/Rootkit), [spyware](http://en.wikipedia.org/wiki/Spyware), [trojan horses](http://en.wikipedia.org/wiki/Trojan_horse_(computing)) and [worms](http://en.wikipedia.org/wiki/Computer_worm). [Computer security](http://en.wikipedia.org/wiki/Computer_security), including protection from [social engineering](http://en.wikipedia.org/wiki/Social_engineering_(security)) techniques, is commonly offered in products and services of antivirus software companies. This page discusses the software used for the prevention and removal of malware [threats](http://en.wikipedia.org/wiki/Threat_(computer)), rather than computer security implemented by software methods.

**Firewall**

A **firewall** can either be software-based or hardware-based and is used to help keep a network secure. Its primary objective is to control the incoming and outgoing network traffic by analyzing the data packets and determining whether it should be allowed through or not, based on a predetermined rule set.

**Data loss prevention software**

Data leakage prevention solution is a system that is designed to detect potential data breach incidents in timely manner and prevent them by monitoring data while **in-use** (endpoint actions), **in-motion**(network traffic), and **at-rest** (data storage) [[1]](http://en.wikipedia.org/wiki/Data_loss_prevention#cite_note-dlpbook-0). In data leakage incidents, sensitive data is disclosed to unauthorized personnel either by malicious intent or inadvertent mistake. Such sensitive data can come in the form of private or company information, intellectual property (IP), financial or patient information, credit-card data, and other information depending on the business and the industry.

**Data recovery**

**Data recovery** is the process of salvaging data from damaged, failed, corrupted, or inaccessible [secondary storage](http://en.wikipedia.org/wiki/Computer_data_storage#Secondary_storage) media when it cannot be accessed normally. Often the data are being salvaged from storage media such as internal or external [hard disk drives](http://en.wikipedia.org/wiki/Hard_disk_drive), [solid-state drives](http://en.wikipedia.org/wiki/Solid-state_drives) (SSD), [USB flash drive](http://en.wikipedia.org/wiki/USB_flash_drive), storage tapes, CDs, DVDs, [RAID](http://en.wikipedia.org/wiki/RAID), and other electronics. Recovery may be required due to physical damage to the storage device or logical damage to the [file system](http://en.wikipedia.org/wiki/File_system) that prevents it from being mounted by the host [operating system](http://en.wikipedia.org/wiki/Operating_system).

The most common "data recovery" scenario involves an [operating system](http://en.wikipedia.org/wiki/Operating_system) (OS) failure (typically on a single-disk, single-[partition](http://en.wikipedia.org/wiki/Disk_partition), single-OS system), in which case the goal is simply to copy all wanted files to another disk. This can be easily accomplished with a [Live CD](http://en.wikipedia.org/wiki/Live_CD), most of which provide a means to [mount](http://en.wikipedia.org/wiki/Mount_(computing)) the system drive and backup disks or removable media, and to move the files from the system disk to the backup media with a [file manager](http://en.wikipedia.org/wiki/File_manager) or [optical disc authoring software](http://en.wikipedia.org/wiki/Optical_disc_authoring_software).

Another scenario involves a disk-level failure, such as a compromised [file system](http://en.wikipedia.org/wiki/File_system) or disk [partition](http://en.wikipedia.org/wiki/Partition_table), or a [hard disk failure](http://en.wikipedia.org/wiki/Hard_disk_failure). In any of these cases, the data cannot be easily read. Depending on the situation, solutions involve repairing the file system, partition table or [master boot record](http://en.wikipedia.org/wiki/Master_boot_record), or hard disk recovery techniques ranging from software-based recovery of corrupted data to hardware replacement on a physically damaged disk. If hard disk recovery is necessary, the disk itself has typically failed permanently, and the focus is rather on a one-time recovery, salvaging whatever data can be read.

In a third scenario, files have been "[deleted](http://en.wikipedia.org/wiki/File_deletion)" from a storage medium. Typically, the contents of deleted files are not removed immediately from the drive; instead, references to them in the directory structure are removed, and the space they occupy is made available for later overwriting. In the meantime, the original file contents remain, often in a number of disconnected [fragments](http://en.wikipedia.org/wiki/File_system_fragmentation), and may be recoverable.

**Encrypting File System**

The **Encrypting File System** (**EFS**) on [Microsoft](http://en.wikipedia.org/wiki/Microsoft) [Windows](http://en.wikipedia.org/wiki/Microsoft_Windows) is a feature introduced in version 3.0 of [NTFS](http://en.wikipedia.org/wiki/NTFS)[[1]](http://en.wikipedia.org/wiki/Encrypting_File_System#cite_note-0) that provides [file system-level encryption](http://en.wikipedia.org/wiki/Filesystem-level_encryption). The technology enables files to be transparently [encrypted](http://en.wikipedia.org/wiki/Encryption) to protect confidential data from attackers with physical access to the computer.

**Defragmentation**

In the maintenance of [file systems](http://en.wikipedia.org/wiki/File_system), **defragmentation** is a process that reduces the amount of [fragmentation](http://en.wikipedia.org/wiki/File_system_fragmentation). It does this by physically organizing the contents of the [mass storage](http://en.wikipedia.org/wiki/Mass_storage) device used to store [files](http://en.wikipedia.org/wiki/Computer_file) into the smallest number of [contiguous](http://en.wikipedia.org/wiki/Contiguity#Computer_science) regions (fragments). It also attempts to create larger regions of free space using *compaction* to impede the return of fragmentation. Some defragmentation utilities try to keep smaller files within a single directory together, as they are often accessed in sequence.

Defragmentation is advantageous and relevant to file systems on electromechanical [disk drives](http://en.wikipedia.org/wiki/Disk_storage). The movement of the [hard drive's read/write heads](http://en.wikipedia.org/wiki/Disk_read-and-write_head) over different areas of the disk when accessing fragmented files is slower, compared to accessing the entire contents of a non-fragmented file sequentially without moving the read/write heads to [seek](http://en.wikipedia.org/wiki/Disk_drive_performance_characteristics#Seek_time) other fragments.

**Disk Cleanup**

**Disk Cleanup** (cleanmgr.exe) is a computer maintenance utility included in [Microsoft Windows](http://en.wikipedia.org/wiki/Microsoft_Windows) designed to free up disk space on a computer's hard drive. The utility first searches and analyzes the hard drive for files that are no longer of any use, and then removes the unnecessary files. There are a number of different file categories that Disk Cleanup targets when performing the initial disk analysis:

* Compression of old files
* Temporary Internet files
* Temporary Windows file
* Downloaded program files
* Recycle Bin
* Removal of unused applications or optional Windows components
* Setup log files
* Off-line files

Aside from removing unnecessary files, users also have the option of compressing files that have not been accessed over a set period of time. This option provides a systematic compression scheme. Infrequently accessed files are compressed to free up disk space while leaving the frequently used files uncompressed for faster read/write access times.

**Other tips for computer and internet safety:**

* Update operating system
* Don’t safe logon information
* Don’t enter sensitive information to public computer
* Don’t leave your computer unattended
* Avoid opening email attachments that comes unexpectedly
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**Business ethics**

**Business ethics** (also **corporate ethics**) is a form of [applied ethics](http://en.wikipedia.org/wiki/Applied_ethics) or [professional ethics](http://en.wikipedia.org/wiki/Professional_ethics) that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Business ethics has both [normative](http://en.wikipedia.org/wiki/Norm_(philosophy)) and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."[[1]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-0)Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control.[[2]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-1) The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.[[3]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-2)

History

Business ethical norms reflect the norms of each historical period. As time passes norms evolve, causing accepted behaviors to become objectionable. Business ethics and the resulting behavior evolved as well. Business was involved in [slavery](http://en.wikipedia.org/wiki/Slavery),[[4]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-3)[[5]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-4)[[6]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-5) [colonialism](http://en.wikipedia.org/wiki/Colonialism),[[7]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-7) and the [cold war](http://en.wikipedia.org/wiki/Cold_war).[[9]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-8)[[10]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-9)

The term 'business ethics' came into common use in the United States in the early 1970s. By the mid-1980s at least 500 courses in business ethics reached 40,000 students, using some twenty textbooks and at least ten casebooks along supported by professional societies, centers and journals of business ethics. The Society for Business Ethics was started in 1980. European business schools adopted business ethics after 1987 commencing with the European Business Ethics Network (EBEN).[[11]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-10)[[12]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-a1-11)[[13]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-12)[[14]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-13) In 1982 the first single-authored books in the field appeared.[[15]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-14)[[16]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-15)

Firms started highlighting their ethical stature in the late 1980s and early 1990s, possibly trying to distance themselves from the business scandals of the day, such as the [savings and loan crisis](http://en.wikipedia.org/wiki/Savings_and_loan_crisis). The idea of business ethics caught the attention of academics, media and business firms by the end of the [Cold War](http://en.wikipedia.org/wiki/Cold_War).[[12]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-a1-11)[[17]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-16)[[18]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-17) However, legitimate criticism of business practices was attacked for infringing the "freedom" of [entrepreneurs](http://en.wikipedia.org/wiki/Entrepreneurs) and critics were accused of supporting [communists](http://en.wikipedia.org/wiki/Communist).[[19]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-18)[[20]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-19) This scuttled the discourse of business ethics both in media and academia.[[21]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-20)

Overview

Business ethics reflects the [philosophy of business](http://en.wikipedia.org/wiki/Philosophy_of_business), one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its [fiduciary responsibility](http://en.wikipedia.org/wiki/Fiduciary_responsibility). Corporate entities are legally considered as persons in USA and in most nations. The 'corporate persons' are legally entitled to the rights and liabilities due to citizens as persons.

Economist Milton Friedman writes that corporate executives' "responsibility... generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom".[[22]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-mf1970-21) Friedman also said, "the only entities who can have responsibilities are individuals ... A business cannot have responsibilities. So the question is, do corporate executives, provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? And my answer to that is, no, they do not."[[22]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-mf1970-21)[[23]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-22)[[24]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-23) A multi-country 2011 survey found support for this view among the "informed public" ranging from 30-80%.[[25]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-24) Duska views Friedman's argument as [consequentialist](http://en.wikipedia.org/wiki/Consequentialist) rather than [pragmatic](http://en.wikipedia.org/wiki/Pragmatic), implying that unrestrained corporate freedom would benefit the most in long term.[[26]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-Duska-25)[[27]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-26) Similarly author business consultant [Peter Drucker](http://en.wikipedia.org/wiki/Peter_Drucker) observed, "There is neither a separate ethics of business nor is one needed", implying that standards of personal ethics cover all business situations.[[28]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-27) However, Peter Drucker in another instance observed that the ultimate responsibility of company directors is not to harm—[*primum non nocere*](http://en.wikipedia.org/wiki/Primum_non_nocere).[[29]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-28) Another view of business is that it must exhibit [corporate social responsibility](http://en.wikipedia.org/wiki/Corporate_social_responsibility) (CSR): an umbrella term indicating that an ethical business must act as a responsible citizen of the communities in which it operates even at the cost of profits or other goals.[[30]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-29)[[31]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-program-30)[[32]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-31)[[33]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-32)[[34]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-33) In the US and most other nations corporate entities are legally treated as persons in some respects. For example, they can hold title to property, sue and be sued and are subject to taxation, although their [free speech](http://en.wikipedia.org/wiki/Free_speech) rights are limited. This can be interpreted to imply that they have independent ethical responsibilities.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Duska argues that stakeholders have the right to expect a business to be ethical; if business has no ethical obligations, other institutions could make the same claim which would be counterproductive to the corporation.[[26]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-Duska-25)

Ethical issues include the rights and duties between a company and its [employees, suppliers, customers and neighbors](http://en.wikipedia.org/wiki/Stakeholder_concept), its [fiduciary](http://en.wikipedia.org/wiki/Fiduciary) responsibility to its [shareholders](http://en.wikipedia.org/wiki/Shareholder_concept). Issues concerning relations between different companies include [hostile take-overs](http://en.wikipedia.org/wiki/Takeover) and [industrial espionage](http://en.wikipedia.org/wiki/Industrial_espionage). Related issues include [corporate governance](http://en.wikipedia.org/wiki/Corporate_governance);[corporate social entrepreneurship](http://en.wikipedia.org/wiki/Corporate_Social_Entrepreneurship); [political contributions](http://en.wikipedia.org/wiki/Campaign_finance_reform); legal issues such as the ethical debate over introducing a crime of [corporate manslaughter](http://en.wikipedia.org/wiki/Corporate_manslaughter); and the marketing of corporations' ethics policies.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

Functional business areas

**Finance**

Fundamentally, finance is a social science discipline.[[35]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-Dobson.2C_p._xvii-34) The discipline borders [behavioral economics](http://en.wikipedia.org/wiki/Behavioral_economics), sociology,[[36]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-35) economics, accounting and management. It concerns technical issues such as the mix of debt and [equity](http://en.wikipedia.org/wiki/Equity_(finance)), [dividend policy](http://en.wikipedia.org/wiki/Dividend_policy), the evaluation of alternative investment projects, [options](http://en.wikipedia.org/wiki/Options_strategies), [futures](http://en.wikipedia.org/wiki/Futures_exchange), [swaps](http://en.wikipedia.org/wiki/Swap_(finance)), and other [derivatives](http://en.wikipedia.org/wiki/Derivative_(finance)), [portfolio](http://en.wikipedia.org/wiki/Portfolio_(finance)) [diversification](http://en.wikipedia.org/wiki/Diversification_(finance)) and many others. It is often mistaken[[*who?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] to be a discipline free from ethical burdens.[[35]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-Dobson.2C_p._xvii-34) The [2008 financial crisis](http://en.wikipedia.org/wiki/Subprime_mortgage_crisis) caused critics to challenge the ethics of the executives in charge of U.S. and European financial institutions and financial regulatory bodies.[[37]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-36) Finance ethics is overlooked for another reason—issues in finance are often addressed as matters of law rather than ethics.[[38]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-a153-37)

**Finance paradigm**

[Aristotle](http://en.wikipedia.org/wiki/Aristotle) said, "the end and purpose of the polis is the good life".[[39]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-38) [Adam Smith](http://en.wikipedia.org/wiki/Adam_Smith) characterized the good life in terms of material goods and intellectual and moral excellences of character.[[40]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-39) Smith in his [*The Wealth of Nations*](http://en.wikipedia.org/wiki/The_Wealth_of_Nations) commented, "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind."[[41]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-40)

However, a section of economists influenced by the ideology of [neoliberalism](http://en.wikipedia.org/wiki/Neoliberalism), interpreted the objective of economics to be maximization of [economic growth](http://en.wikipedia.org/wiki/Economic_growth) through accelerated [consumption](http://en.wikipedia.org/wiki/Consumption_(economics)) and [production](http://en.wikipedia.org/wiki/Manufacturing) of [goods and services](http://en.wikipedia.org/wiki/Goods_and_services).[[42]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-41) Neoliberal ideology promoted finance from its position as a component of economics to its core.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Proponents of the ideology hold that unrestricted financial flows, if redeemed from the shackles of "financial repressions",[[43]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-42) best help impoverished nations to grow.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] The theory holds that open financial systems accelerate economic growth by encouraging foreign capital inﬂows, thereby enabling higher levels of savings, investment, employment, productivity and "welfare",[[44]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-43)[[45]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-44)[[46]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-45)[[47]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-46) along with containing corruption.[[48]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-47) Neoliberals recommended that governments open their financial systems to the global market with minimal regulation over capital flows.[[49]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-48)[[50]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-49)[[51]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-50)[[52]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-51)[[53]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-52) The recommendations however, met with criticisms from various schools of ethical philosophy. Some [pragmatic ethicists](http://en.wikipedia.org/wiki/Pragmatism), found these claims to unfalsifiable and a priori, although neither of these makes the recommendations false or unethical per se.[[54]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-53)[[55]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-54)[[56]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-55) Raising economic growth to the highest value necessarily means that welfare is subordinate, although advocates dispute this saying that economic growth provides more welfare than known alternatives.[[57]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-56) Since history shows that neither regulated nor unregulated firms always behave ethically, neither regime offers an ethical [panacea](http://en.wikipedia.org/wiki/Panacea).[[58]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-salinger-57)[[59]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-58)[[60]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-59)

Neoliberal recommendations to developing countries to unconditionally open up their economies to transnational finance corporations was fiercely contested by some ethicists.[[61]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-60)[[62]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-61)[[63]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-62)[[64]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-63)[[65]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-64) The claim that deregulation and the opening up of economies would reduce corruption was also contested.[[66]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-65)[[67]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-66)[[68]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-67)

Dobson observes, "a rational agent is simply one who pursues personal material advantage ad infinitum. In essence, to be rational in finance is to be individualistic, materialistic, and competitive. Business is a game played by individuals, as with all games the object is to win, and winning is measured in terms solely of material wealth. Within the discipline this rationality concept is never questioned, and has indeed become the theory-of-the-firm's sine qua non".[[69]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-68)[[70]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-69) Financial ethics is in this view a mathematical function of shareholder wealth. Such simplifying assumptions were once necessary for the construction of mathematically robust models.[[71]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-70) However [signalling theory](http://en.wikipedia.org/wiki/Signalling_(economics)) and [agency theory](http://en.wikipedia.org/wiki/Principal-agent_problem)extended the paradigm to greater realism.[[72]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-71)

**Other issues**

Fairness in trading practices, trading conditions, financial contracting, sales practices, consultancy services, tax payments, internal audit, external audit and [executive compensation](http://en.wikipedia.org/wiki/Executive_compensation) also fall under the umbrella of finance and accounting.[[38]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-a153-37)[[73]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-72) Particular corporate ethical/legal abuses include: [creative accounting](http://en.wikipedia.org/wiki/Creative_accounting), [earnings management](http://en.wikipedia.org/wiki/Earnings_management), misleading financial analysis [insider trading](http://en.wikipedia.org/wiki/Insider_trading), [securities fraud](http://en.wikipedia.org/wiki/Securities_fraud), [bribery](http://en.wikipedia.org/wiki/Bribe)/kickbacks and [facilitation payments](http://en.wikipedia.org/wiki/Facilitation_payment). Outside of corporations, [bucket shops](http://en.wikipedia.org/wiki/Bucket_shop_(stock_market)) and [forex scams](http://en.wikipedia.org/wiki/Forex_scam) are criminal manipulations of financial markets. Cases include [accounting scandals](http://en.wikipedia.org/wiki/Accounting_scandals), [Enron](http://en.wikipedia.org/wiki/Enron), [WorldCom](http://en.wikipedia.org/wiki/WorldCom) and [Satyam](http://en.wikipedia.org/wiki/Satyam_scandal).[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

**Human resource management**

[Human resource management](http://en.wikipedia.org/wiki/Human_resource_management) occupies the sphere of activity of [recruitment](http://en.wikipedia.org/wiki/Recruitment) selection, orientation, [performance appraisal](http://en.wikipedia.org/wiki/Performance_appraisal), [training and development](http://en.wikipedia.org/wiki/Training_and_development), [industrial relations](http://en.wikipedia.org/wiki/Industrial_relations) and [health and safety](http://en.wikipedia.org/wiki/Occupational_safety_and_health) issues.[[74]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-a102-73) Business Ethicists differ in their orientation towards labour ethics. Some assess human resource policies according to whether they support an egalitarian workplace and the dignity of labor.[[75]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-74)[[76]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-75)[[77]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-76)

Issues including [employment itself](http://en.wikipedia.org/wiki/At-will_employment), [privacy](http://en.wikipedia.org/wiki/Workplace_surveillance), compensation in accord with [comparable worth](http://en.wikipedia.org/wiki/Comparable_worth), [collective bargaining](http://en.wikipedia.org/wiki/Collective_bargaining) (and/or its opposite) can be seen either as inalienable rights[[78]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-pin-77)[[79]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-78)or as negotiable.[[80]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-79)[[81]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-80)[[82]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-81)[[83]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-82)[[84]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-83) [Discrimination](http://en.wikipedia.org/wiki/Discrimination) by age (preferring the [young](http://en.wikipedia.org/wiki/Ageism) or the [old](http://en.wikipedia.org/wiki/Seniority)), [gender](http://en.wikipedia.org/wiki/Sex_discrimination)/[sexual harassment](http://en.wikipedia.org/wiki/Sexual_harassment), [race](http://en.wikipedia.org/wiki/Racial_discrimination), [religion](http://en.wikipedia.org/wiki/Religious_discrimination), [disability](http://en.wikipedia.org/wiki/Disability), weight and attractiveness. A common approach to remedying discrimination is [affirmative action](http://en.wikipedia.org/wiki/Affirmative_action).

Potential employees have ethical obligations to employers, involving intellectual property protection and [whistle-blowing](http://en.wikipedia.org/wiki/Whistle-blowing).

Employers must consider [workplace safety](http://en.wikipedia.org/wiki/Occupational_safety_and_health), which may involve modifying the workplace, or providing appropriate training or hazard disclosure.

Larger economic issues such as [immigration](http://en.wikipedia.org/wiki/Immigration), [trade policy](http://en.wikipedia.org/wiki/Trade_policy), [globalization](http://en.wikipedia.org/wiki/Globalization) and [trade unionism](http://en.wikipedia.org/wiki/Trade_union) affect workplaces and have an ethical dimension, but are often beyond the purview of individual companies.[[78]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-pin-77)[[85]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-84)[[86]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-85)

**Trade unions**

Unions for example, may push employers to establish [due process](http://en.wikipedia.org/wiki/Due_process) for workers, but may also cost jobs by demanding unsustainable compensation and work rules.[[87]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-86)[[88]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-87)[[89]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-88)[[90]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-89)[[91]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-90)[[92]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-91)[[93]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-92)[[94]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-93)[[95]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-94)[[96]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-95)

Unionized workplaces may confront [union busting](http://en.wikipedia.org/wiki/Union_busting) and [strike breaking](http://en.wikipedia.org/wiki/Strike_breaking) and face the ethical implications of work rules that advantage some workers over others.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

**Management strategy**

Among the many people management strategies that companies employ are a "soft" approach that regards employees as a source of creative energy and participants in workplace decision making, a "hard" version explicitly focused on control[[97]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-96) and [Theory Z](http://en.wikipedia.org/wiki/Theory_Z) that emphasizes philosophy, culture and consensus.[[98]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-97) None ensure ethical behavior.[[99]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-98) Some studies claim that sustainable success requires a humanely treated and satisfied workforce.[[100]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-99)[[101]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-100)[[102]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-101)

**Sales and marketing**

*Main article:*[*Marketing ethics*](http://en.wikipedia.org/wiki/Marketing_ethics)

Marketing Ethics came of age only as late as 1990s.[[103]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-102) Marketing ethics was approached from ethical perspectives of virtue or [virtue ethics](http://en.wikipedia.org/wiki/Virtue_ethics), [deontology](http://en.wikipedia.org/wiki/Deontology), [consequentialism](http://en.wikipedia.org/wiki/Consequentialism),[pragmatism](http://en.wikipedia.org/wiki/Pragmatic_ethics) and relativism.[[104]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-103)[[105]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-104)

Ethics in marketing deals with the principles, values and/or ideals by which marketers (and marketing institutions) ought to act.[[106]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-105) Marketing ethics is also contested terrain, beyond the previously described issue of potential conflicts between profitability and other concerns. Ethical marketing issues include marketing redundant or dangerous products/services[[107]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-106)[[108]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-107)[[109]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-108) transparency about environmental risks, transparency about [product ingredients](http://en.wikipedia.org/wiki/Mandatory_labelling) such as [genetically modified organisms](http://en.wikipedia.org/wiki/Genetically_modified_organism)[[110]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-109)[[111]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-110)[[112]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-111)[[113]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-112) possible health risks, financial risks, security risks, etc.,[[114]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-113) respect for consumer privacy and autonomy,[[115]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-114) [advertising](http://en.wikipedia.org/wiki/Advertising) truthfulness and fairness in [pricing](http://en.wikipedia.org/wiki/Pricing) & distribution.[[116]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-115)

According to Borgerson, and Schroeder (2008), marketing can influence individuals' perceptions of and interactions with other people, implying an ethical responsibility to avoid distorting those perceptions and interactions.[[117]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-116)

Marketing ethics involves pricing practices, including illegal actions such as [price fixing](http://en.wikipedia.org/wiki/Price_fixing) and legal actions including [price discrimination](http://en.wikipedia.org/wiki/Price_discrimination) and [price skimming](http://en.wikipedia.org/wiki/Price_skimming). Certain promotional activities have drawn fire, including [greenwashing](http://en.wikipedia.org/wiki/Greenwash), [bait and switch](http://en.wikipedia.org/wiki/Bait_and_switch), [shilling](http://en.wikipedia.org/wiki/Shill), [viral marketing](http://en.wikipedia.org/wiki/Viral_marketing), [spam (electronic)](http://en.wikipedia.org/wiki/Spam_(electronic)), [pyramid schemes](http://en.wikipedia.org/wiki/Pyramid_scheme) and [multi-level marketing](http://en.wikipedia.org/wiki/Multi-level_marketing). Advertising has raised objections about [attack ads](http://en.wikipedia.org/wiki/Attack_ad), [subliminal messages](http://en.wikipedia.org/wiki/Subliminal_message), [sex in advertising](http://en.wikipedia.org/wiki/Sex_in_advertising) and [marketing in schools](http://en.wikipedia.org/wiki/Marketing_in_schools).

**Production**

This area of business ethics usually deals with the duties of a company to ensure that products and production processes do not needlessly cause harm. Since few goods and services can be produced and consumed with zero risk, determining the ethical course can be problematic. In some case consumers demand products that harm them, such as[tobacco](http://en.wikipedia.org/wiki/Tobacco) products. Production may have environmental impacts, including [pollution](http://en.wikipedia.org/wiki/Pollution), [habitat destruction](http://en.wikipedia.org/wiki/Habitat_destruction) and [urban sprawl](http://en.wikipedia.org/wiki/Urban_sprawl). The downstream effects of technologies [nuclear power](http://en.wikipedia.org/wiki/Nuclear_power),[genetically modified food](http://en.wikipedia.org/wiki/Genetically_modified_food) and [mobile phones](http://en.wikipedia.org/wiki/Mobile_phone) may not be well understood. While the [precautionary principle](http://en.wikipedia.org/wiki/Precautionary_principle) may prohibit introducing new technology whose consequences are not fully understood, that principle would have prohibited most new technology introduced since the [industrial revolution](http://en.wikipedia.org/wiki/Industrial_revolution). Product testing protocols have been attacked for violating the rights of both [humans](http://en.wikipedia.org/wiki/Clinical_trials) and [animals](http://en.wikipedia.org/wiki/Animal_testing)[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

**Property**

*Main article:*[*Private property*](http://en.wikipedia.org/wiki/Private_property)*, and*[*Property rights*](http://en.wikipedia.org/wiki/Property_rights)

The etymological root of property is the [Latin](http://en.wikipedia.org/wiki/Latin) 'proprius'[[118]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-117) which refers to 'nature', 'quality', 'one's own', 'special characteristic', 'proper', 'intrinsic', 'inherent', 'regular', 'normal', 'genuine', 'thorough, complete, perfect' etc. The word property is value loaded and associated with the personal qualities of propriety and respectability, also implies questions relating to ownership. A 'proper' person owns and is true to herself or himself, and is thus genuine, perfect and pure.[[119]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-118)

**Modern history of property rights**

Modern discourse on property emerged by the turn of 17th century within theological discussions of that time. For instance, [John Locke](http://en.wikipedia.org/wiki/John_Locke) justified [property rights](http://en.wikipedia.org/wiki/Property_rights) saying that God had made "the earth, and all inferior creatures, [in] common to all men".[[120]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-119)[[121]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-120)[[122]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-121)[[123]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-122)

In 1802 [Utilitarian](http://en.wikipedia.org/wiki/Utilitarian) [Jeremy Bentham](http://en.wikipedia.org/wiki/Jeremy_Bentham) stated, "property and law are born together and die together".[[124]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-123)[[125]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-124)

One argument for property ownership is that it enhances individual liberty by extending the line of non-interference by the state or others around the person.[[126]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-125) Seen from this perspective, property right is absolute and property has a special and distinctive character that precedes its legal protection. Blackstone conceptualized property as the "sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe".[[127]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-126)

**Slaves as property**

During the seventeenth and eighteenth centuries, slavery spread to European colonies including America, where colonial legislatures defined the legal status of slaves as a form of property.[[128]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-127) During this time settlers began the centuries-long process of dispossessing the natives of America of millions of acres of land.[[129]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-128) Ironically, the natives lost about 200,000 square miles (520,000 km2) of land in the [Louisiana Territory](http://en.wikipedia.org/wiki/Louisiana_Territory) under the leadership of [Thomas Jefferson](http://en.wikipedia.org/wiki/Thomas_Jefferson), who championed property rights.[[130]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-129)[[131]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-130)[[132]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-131)

Combined with theological justification, property was taken to be essentially natural ordained by God.[[133]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-132) Property, which later gained meaning as ownership and appeared natural to Locke, Jefferson and to many of the 18th and 19th century intellectuals[[134]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-133) as land, labour or idea[[135]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-134) and property right over slaves had the same [theological](http://en.wikipedia.org/wiki/Christianity_and_slavery) and [essentialized](http://en.wikipedia.org/wiki/Essentialism)justification[[136]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-135)[[137]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-136)[[138]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-137)[[139]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-138)[[140]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-139)[[141]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-140) It was even held that the property in slaves was a sacred right.[[142]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-141)[[143]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-142) Wiecek noted, "slavery was more clearly and explicitly established under the Constitution as it had been under the Articles".[[144]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-143) Accordingly, [US Supreme Court](http://en.wikipedia.org/wiki/US_Supreme_Court) Chief Justice [Roger B. Taney](http://en.wikipedia.org/wiki/Roger_B._Taney) in his 1857 judgment stated, "The right of property in a slave is distinctly and expressly affirmed in the Constitution".

**Natural right vs social construct**

Neoliberals hold that private property rights are a non-negotiable natural right.[[145]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-144)[[146]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-145) Davies counters with "property is no different from other legal categories in that it is simply a consequence of the significance attached by law to the relationships between legal persons."[[147]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-Davies_2007_20-146)[[148]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-147) Singer claims, "Property is a form of power, and the distribution of power is a political problem of the highest order".[[149]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-148)[[150]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-149) Rose finds, "'Property' is only an effect, a construction, of relationships between people, meaning that its objective character is contestable. Persons and things, are 'constituted' or 'fabricated' by legal and other normative techniques.".[[151]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-150)[[152]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-151) Singer observes, "A private property regime is not, after all, a Hobbesian state of nature; it requires a working legal system that can define, allocate, and enforce property rights."[[153]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-152) Davis claims that common law theory generally favors the view that "property is not essentially a 'right to a thing', but rather a separable bundle of rights subsisting between persons which may vary according to the context and the object which is at stake".[[147]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-Davies_2007_20-146)

In common parlance property rights involve a '[bundle of rights](http://en.wikipedia.org/wiki/Bundle_of_rights)'[[154]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-153) including occupancy, use and enjoyment, and the right to sell, devise, give, or lease all or part of these rights.[[155]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-154)[[156]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-155)[[157]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-156)[[158]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-157) Custodians of property have obligations as well as rights.[[159]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-158)[[160]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-159) Michelman writes, "A property regime thus depends on a great deal of cooperation, trustworthiness, and self-restraint among the people who enjoy it."[[161]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-160)[[162]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-161)

Menon claims that the autonomous individual, responsible for his/her own existence is a cultural construct moulded by [Western culture](http://en.wikipedia.org/wiki/Western_culture) rather than the truth about the [human condition](http://en.wikipedia.org/wiki/Human_condition).[[163]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-162) Penner views property as an "illusion"—a "normative phantasm" without substance.[[164]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-163)[[165]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-164)

In the neoliberal literature, property is part of the private side of a public/private dichotomy and acts a counterweight to state power. Davies counters that "any space may be subject to plural meanings or appropriations which do not necessarily come into conflict".[[166]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-165)

Private property has never been a universal doctrine, although since the end of the Cold War is it has become nearly so. Some societies, e.g., Native American bands, held land, if not all property, in common. When groups came into conflict, the victor often [appropriated](http://en.wikipedia.org/wiki/Indian_Removal_Act) the loser's property.[[167]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-166)[[168]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-167) The rights paradigm tended to stabilize the distribution of property holdings on the presumption that title had been lawfully acquired.[[169]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-168)

Property does not exist in isolation and so property rights too.[[170]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-169) Bryan claimed that property rights describe relations among people and not just relations between people and things[[171]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-170)[[172]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-171)[[173]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-172)[[174]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-173)[[175]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-174)[[176]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-175) Singer holds that the idea that owners have no legal obligations to others wrongly supposes that property rights hardly ever conflict with other legally protected interests.[[177]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-176) Singer continues implying that [legal realists](http://en.wikipedia.org/wiki/Legal_realism) "did not take the character and structure of social relations as an important independent factor in choosing the rules that govern market life". Ethics of property rights begins with recognizing the vacuous nature of the notion of property.[[178]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-177)

**Intellectual property**

*Main articles:*[*Intellectual property*](http://en.wikipedia.org/wiki/Intellectual_property)*and*[*Intellectual property rights*](http://en.wikipedia.org/wiki/Intellectual_property_rights)

[Intellectual property](http://en.wikipedia.org/wiki/Intellectual_property) (IP) encompasses expressions of ideas, thoughts, codes and information. "[Intellectual property rights](http://en.wikipedia.org/wiki/Intellectual_property_rights)" (IPR) treat IP as a kind of [real property](http://en.wikipedia.org/wiki/Real_property), subject to analogous protections, rather than as a reproducible good or service. Boldrin and Levine argue that "government does not ordinarily enforce monopolies for producers of other goods. This is because it is widely recognized that monopoly creates many social costs. Intellectual monopoly is no different in this respect. The question we address is whether it also creates social benefits commensurate with these social costs."[[179]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-178)

International standards relating to Intellectual Property Rights are enforced through [Agreement on Trade Related Aspects of Intellectual Property Rights](http://en.wikipedia.org/wiki/Agreement_on_Trade_Related_Aspects_of_Intellectual_Property_Rights) (TRIPS).[[180]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-179) In the US, IP other than [copyrights](http://en.wikipedia.org/wiki/Copyright) is regulated by the [United States Patent and Trademark Office](http://en.wikipedia.org/wiki/United_States_Patent_and_Trademark_Office).

The [US Constitution](http://en.wikipedia.org/wiki/US_Constitution) included the power to protect intellectual property, empowering the Federal government "*to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries*".[[181]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-steel-180) Boldrin and Levine see no value in such state-enforced monopolies stating, "we ordinarily think of innovative monopoly as an [oxymoron](http://en.wikipedia.org/wiki/Oxymoron).[[182]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-181)[[183]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-182) Further they comment, 'intellectual property' "is not like ordinary property at all, but constitutes a government grant of a costly and dangerous private monopoly over ideas. We show through theory and example that intellectual monopoly is not necessary for innovation and as a practical matter is damaging to growth, prosperity, and liberty" .[[181]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-steel-180) Steelman defends patent monopolies, writing, "Consider prescription drugs, for instance. Such drugs have benefited millions of people, improving or extending their lives. Patent protection enables drug companies to recoup their development costs because for a specific period of time they have the sole right to manufacture and distribute the products they have invented."[[184]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-183) The court cases by 39 pharmaceutical companies against [South Africa](http://en.wikipedia.org/wiki/South_Africa)'s 1997 Medicines and Related Substances Control Amendment Act, which intended to provide affordable HIV medicines has been cited as a harmful effect of patents.[[185]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-184)[[186]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-185)[[187]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-186)

One attack on IPR is moral rather than utilitarian, claiming that inventions are mostly a collective, cumulative, path dependent, social creation and therefore, no one person or ﬁrm should be able to monopolize them even for a limited period.[[188]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-187) The opposing argument is that the benefits of innovation arrive sooner when patents encourage innovators and their investors to increase their commitments. Roderick Long, a [libertarian](http://en.wikipedia.org/wiki/Libertarianism) philosopher, observes, "Ethically, property rights of any kind have to be justified as extensions of the right of individuals to control their own lives. Thus any alleged property rights that conflict with this moral basis—like the "right" to own slaves—are invalidated. In my judgment, intellectual property rights also fail to pass this test. To enforce copyright laws and the like is to prevent people from making peaceful use of the information they possess. If you have acquired the information legitimately (say, by buying a book), then on what grounds can you be prevented from using it, reproducing it, trading it? Is this not a violation of the freedom of speech and press? It may be objected that the person who originated the information deserves ownership rights over it. But information is not a concrete thing an individual can control; it is a universal, existing in other people's minds and other people's property, and over these the originator has no legitimate sovereignty. You cannot own information without owning other people".[[189]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-188) Machlup concluded that patents do not have the intended effect of enhancing innovation.[[190]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-189) Self-declared [anarchist](http://en.wikipedia.org/wiki/Anarchist) [Proudhon](http://en.wikipedia.org/wiki/Pierre-Joseph_Proudhon), in his 1847 seminal work noted, "Monopoly is the natural opposite of competition," and continued, "Competition is the vital force which animates the collective being: to destroy it, if such a supposition were possible, would be to kill society"[[191]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-190)[[192]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-191)

Mindeli and Pipiya hold that the [knowledge economy](http://en.wikipedia.org/wiki/Knowledge_economy) is an economy of abundance[[193]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-192) because it relies on the "infinite potential" of knowledge and ideas rather than on the limited resources of natural resources, labor and capital. Allison envisioned an egalitarian distribution of knowledge.[[194]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-193) Kinsella claims that IPR create artificial scarcity and reduce equality.[[195]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-194)[[196]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-195)[[197]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-196) Bouckaert wrote, "Natural scarcity is that which follows from the relationship between man and nature. Scarcity is natural when it is possible to conceive of it before any human, institutional, contractual arrangement. Artificial scarcity, on the other hand, is the outcome of such arrangements. Artificial scarcity can hardly serve as a justification for the legal framework that causes that scarcity. Such an argument would be completely circular. On the contrary, artificial scarcity itself needs a justification" [[198]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-197)[[199]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-198)Corporations fund much IP creation and can acquire IP they do not create,[[200]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-199) to which Menon and others object.[[201]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-200)[[202]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-201) Andersen claims that IPR has increasingly become an instrument in eroding public domain.[[203]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-202)

Ethical and legal issues include: [Patent infringement](http://en.wikipedia.org/wiki/Patent_infringement), [copyright infringement](http://en.wikipedia.org/wiki/Copyright_infringement), [trademark infringement](http://en.wikipedia.org/wiki/Trademark_infringement), [patent](http://en.wikipedia.org/wiki/Patent_misuse) and [copyright misuse](http://en.wikipedia.org/wiki/Copyright_misuse), [submarine patents](http://en.wikipedia.org/wiki/Submarine_patent), [gene patents](http://en.wikipedia.org/wiki/Gene_patent), [patent](http://en.wikipedia.org/wiki/Patent_troll),[copyright](http://en.wikipedia.org/wiki/Copyright_troll) and [trademark trolling](http://en.wikipedia.org/wiki/Trademark_troll), [Employee raiding](http://en.wikipedia.org/wiki/Employee_raiding) and monopolizing talent, [Bioprospecting](http://en.wikipedia.org/wiki/Bioprospecting), [biopiracy](http://en.wikipedia.org/wiki/Biopiracy) and [industrial espionage](http://en.wikipedia.org/wiki/Industrial_espionage), [digital rights management](http://en.wikipedia.org/wiki/Digital_rights_management).

Notable IP copyright cases include [Napster](http://en.wikipedia.org/wiki/A%26M_Records,_Inc._v._Napster,_Inc.), [Eldred v. Ashcroft](http://en.wikipedia.org/wiki/Eldred_v._Ashcroft) and [Air Pirates](http://en.wikipedia.org/wiki/Air_Pirates).

International issues

While business ethics emerged as a field in the 1970s, international business ethics did not emerge until the late 1990s, looking back on the international developments of that decade.[[204]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-203) Many new practical issues arose out of the international context of business. Theoretical issues such as cultural relativity of ethical values receive more emphasis in this field. Other, older issues can be grouped here as well. Issues and subfields include:

* The search for universal values as a basis for international commercial behaviour.
* Comparison of business ethical traditions in different countries. Also on the basis of their respective GDP and [Corruption rankings].
* Comparison of business ethical traditions from various religious perspectives.
* Ethical issues arising out of international business transactions; e.g., [bioprospecting](http://en.wikipedia.org/wiki/Bioprospecting) and [biopiracy](http://en.wikipedia.org/wiki/Biopiracy) in the pharmaceutical industry; the [fair trade](http://en.wikipedia.org/wiki/Fair_trade) movement; [transfer pricing](http://en.wikipedia.org/wiki/Transfer_pricing).
* Issues such as [globalization](http://en.wikipedia.org/wiki/Globalization) and [cultural imperialism](http://en.wikipedia.org/wiki/Cultural_imperialism).
* Varying global standards—e.g., the use of [child labor](http://en.wikipedia.org/wiki/Child_labor).
* The way in which multinationals take advantage of international differences, such as outsourcing production (e.g. clothes) and services (e.g. call centres) to low-wage countries.
* The permissibility of international commerce with pariah states.

The success of any business depends on its financial performance. Financial accounting helps the management to report and also control the business performance.

The information regarding the financial performance of the company plays an important role in enabling people to take right decision about the company. Therefore, it becomes necessary to understand how to record based on accounting conventions and concepts ensure unambling and accurate records.

Foreign countries often use dumping as a competitive threat, selling products at prices lower than their normal value. This can lead to problems in domestic markets. It becomes difficult for these markets to compete with the pricing set by foreign markets. In 2009, the International Trade Commission has been researching anti-dumping laws. Dumping is often seen as an ethical issue, as larger companies are taking advantage of other less economically advanced companies.

**Corporate policies**

As part of more comprehensive [compliance and ethics programs](http://en.wikipedia.org/wiki/Compliance_and_ethics_program), many companies have formulated internal policies pertaining to the ethical conduct of employees. These policies can be simple exhortations in broad, highly generalized language (typically called a corporate ethics statement), or they can be more detailed policies, containing specific behavioural requirements (typically called corporate ethics codes). They are generally meant to identify the company's expectations of workers and to offer guidance on handling some of the more common ethical problems that might arise in the course of doing business. It is hoped that having such a policy will lead to greater ethical awareness, consistency in application, and the avoidance of ethical disasters.

An increasing number of companies also require employees to attend seminars regarding business conduct, which often include discussion of the company's policies, specific case studies, and legal requirements. Some companies even require their employees to sign agreements stating that they will abide by the company's rules of conduct.

Many companies are assessing the environmental factors that can lead employees to engage in unethical conduct. A competitive business environment may call for unethical behaviour. Lying has become expected in fields such as trading. An example of this are the issues surrounding the unethical actions of the Saloman Brothers.

Not everyone supports corporate policies that govern ethical conduct. Some claim that ethical problems are better dealt with by depending upon employees to use their own judgment.

Others believe that corporate ethics policies are primarily rooted in utilitarian concerns, and that they are mainly to limit the company's legal liability, or to curry public favour by giving the appearance of being a good corporate citizen. Ideally, the company will avoid a lawsuit because its employees will follow the rules. Should a lawsuit occur, the company can claim that the problem would not have arisen if the employee had only followed the code properly.

Sometimes there is disconnection between the company's code of ethics and the company's actual practices. Thus, whether or not such conduct is explicitly sanctioned by management, at worst, this makes the policy duplicitous, and, at best, it is merely a marketing tool.

Jones and Parker write, "Most of what we read under the name business ethics is either sentimental common sense, or a set of excuses for being unpleasant."[[215]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-214) Many manuals are procedural form filling exercises unconcerned about the real ethical dilemmas. For instance, US Department of Commerce ethics program treats business ethics as a set of instructions and procedures to be followed by 'ethics officers'.,[[31]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-program-30) some others claim being ethical is just for the sake of being ethical.[[216]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-215) Business ethicists may trivialize the subject, offering standard answers that do not reflect the situation's complexity.[[208]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-ag43-207)

**Ethics officers**

Ethics officers (sometimes called "compliance" or "business conduct officers") have been appointed formally by organizations since the mid-1980s. One of the catalysts for the creation of this new role was a series of fraud, corruption, and abuse scandals that afflicted the U.S. defense industry at that time. This led to the creation of the Defense Industry Initiative (DII), a pan-industry initiative to promote and ensure ethical business practices. The DII set an early benchmark for ethics management in corporations. In 1991, the [Ethics & Compliance Officer Association](http://www.theecoa.org/) (ECOA)—originally the Ethics Officer Association (EOA)—was founded at the [Center for Business Ethics](http://www.bentley.edu/cbe) (at Bentley College, Waltham, MA) as a professional association for those responsible for managing organizations' efforts to achieve ethical best practices. The membership grew rapidly (the ECOA now has over 1,200 members) and was soon established as an independent organization.

Another critical factor in the decisions of companies to appoint ethics/compliance officers was the passing of the Federal Sentencing Guidelines for Organizations in 1991, which set standards that organizations (large or small, commercial and non-commercial) had to follow to obtain a reduction in sentence if they should be convicted of a federal offense. Although intended to assist judges with sentencing, the influence in helping to establish best practices has been far-reaching.

In the wake of numerous corporate scandals between 2001–04 (affecting large corporations like [Enron](http://en.wikipedia.org/wiki/Enron), [WorldCom](http://en.wikipedia.org/wiki/WorldCom) and [Tyco](http://en.wikipedia.org/wiki/Tyco_International)), even small and medium-sized companies have begun to appoint ethics officers. They often report to the Chief Executive Officer and are responsible for assessing the ethical implications of the company's activities, making recommendations regarding the company's ethical policies, and disseminating information to employees. They are particularly interested in uncovering or preventing unethical and illegal actions. This trend is partly due to the [Sarbanes–Oxley Act](http://en.wikipedia.org/wiki/Sarbanes%E2%80%93Oxley_Act) in the United States, which was enacted in reaction to the above scandals. A related trend is the introduction of risk assessment officers that monitor how shareholders' investments might be affected by the company's decisions.

The effectiveness of ethics officers is not clear. If the appointment is made primarily as a reaction to legislative requirements, one might expect little impact, at least over the short term. In part, this is because ethical business practices result from a corporate culture that consistently places value on ethical behaviour, a culture and climate that usually emanates from the top of the organization. The mere establishment of a position to oversee ethics will most likely be insufficient to inculcate ethical behaviour: a more systemic programme with consistent support from general management will be necessary.

The foundation for ethical behaviour goes well beyond corporate culture and the policies of any given company, for it also depends greatly upon an individual's early moral training, the other institutions that affect an individual, the competitive business environment the company is in and, indeed, society as a whole.

Academic discipline

As an academic discipline, business ethics emerged in the 1970s. Since no academic business ethics journals or conferences existed, researchers published in general management journals, and attended general conferences. Over time, specialized peer-reviewed journals appeared, and more researchers entered the field. Corporate scandals in the earlier 2000s increased the field's popularity. As of 2009, sixteen academic journals devoted to various business ethics issues existed, with [Journal of Business Ethics](http://en.wikipedia.org/wiki/Journal_of_Business_Ethics) and[Business Ethics Quarterly](http://en.wikipedia.org/wiki/Business_Ethics_Quarterly) considered the leaders.[[217]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-216)

[The International Business Development Institute](http://en.wikipedia.org/w/index.php?title=The_International_Business_Development_Institute&action=edit&redlink=1)[[218]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-217) is a global non-profit organization that represents 217 nations and all 50 United States. It offers a Charter in Business Development (CBD) that focuses on ethical business practices and standards. The Charter is directed by [Harvard](http://en.wikipedia.org/wiki/Harvard), [MIT](http://en.wikipedia.org/wiki/MIT), and [Fulbright](http://en.wikipedia.org/wiki/Fulbright) Scholars, and it includes graduate-level coursework in economics, politics, marketing, management, technology, and legal aspects of business development as it pertains to business ethics. IBDI also oversees the International Business Development Institute of Asia[[219]](http://en.wikipedia.org/wiki/Business_ethics#cite_note-218) which provides individuals living in 20 Asian nations the opportunity to earn the Charter.

Organizational ethics

**Organizational Ethics** is the [ethics](http://en.wikipedia.org/wiki/Ethics) of an [organization](http://en.wikipedia.org/wiki/Organization), and it is how an organization ethically responds to an internal or external stimulus. Organizational ethics is interdependent with the [organizational culture](http://en.wikipedia.org/wiki/Organizational_culture). Although, it is akin to both [organizational behavior](http://en.wikipedia.org/wiki/Organizational_behavior) (OB) and [business ethics](http://en.wikipedia.org/wiki/Business_ethics) on the micro and macro levels, organizational ethics is neither OB, nor is it solely **business ethics** (which includes corporate governance and [corporate ethics](http://en.wikipedia.org/wiki/Corporate_ethics)). Organizational ethics express the values of an organization to its employees and/or other entities irrespective of governmental and/or regulatory [laws](http://en.wikipedia.org/wiki/Laws).

Overview of the field

The [Foreign Corrupt Practices Act](http://en.wikipedia.org/wiki/Foreign_Corrupt_Practices_Act) (FCPA) restricts U.S. firms from engaging in bribery and other illegal practices internationally. There are [laws](http://en.wikipedia.org/wiki/Laws) that have the same type of prohibition for European companies. These laws create a disadvantage competitively for both European and U.S. firms.[[1]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-qje-0) Such laws are not a restricting element to organizations that have highly elevated ethical behavior as part of their values. Organizations that do not have an outlook for positive ethical practices as part of their cultures, usually lead to their own demise, such as, [Enron](http://en.wikipedia.org/wiki/Enron) and [WorldCom](http://en.wikipedia.org/wiki/WorldCom) by their questionable accounting practices. The converse is generally true, organizations that have integrity and encouraging ethical practices as part of their culture are viewed with respect by their [employees](http://en.wikipedia.org/wiki/Employees), [community](http://en.wikipedia.org/wiki/Community), and corresponding industries. [[2]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-man-1) Thereby, the positive ethical outlook of an organization results in a solid financial bottom-line, because of greater sales along with their ability to retain and attract new and talented personnel. More importantly, an ethical organization will have the ability to retain employees that are experienced and knowledgeable (generally referred to as [human capital](http://en.wikipedia.org/wiki/Human_capital)). This **human capital** results in less employee turnover and less time to train new employees, which in turn allows for greater output of [services](http://en.wikipedia.org/wiki/Service_(economics)) (or production of [goods](http://en.wikipedia.org/wiki/Good_(economics))).

**Basic elements of an ethical organization**

There are at least four elements which exist in organizations that make ethical behavior conducive within an organization. The four elements necessary to quantify an organization's ethics are: 1) written code of ethics and standards; 2) ethics [training](http://en.wikipedia.org/wiki/Training) to executives, managers, and employees; 3) availability for advice on ethical situations (i.e, advice lines or offices); and 4) systems for confidential reporting.[[3]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-hrm-2)

Good leaders strive to create a better and more ethical organization. Restoring an ethical climate in organization is critical, as it is a key component in solving the many other organizational development and ethical behavior issues facing the organization.

Intrinsic and extrinsic

The [intrinsic](http://en.wikipedia.org/wiki/Intrinsic) and [extrinsic](http://en.wikipedia.org/wiki/Extrinsic) rewards of an ethical organization are tethered to the organizational culture and business ethics of an organization. Based upon the reliability and support structure of each of the four areas needed for ethical behavior, then the organizational ethics will be evident throughout the organization. The organization, the employees, and other entities will receive **intrinsic and extrinsic rewards**. Actions of employees can range from whistle blowing (intrinsic) to the extraordinary actions of an hourly employee buying all the peanut butter (as produced by his [employer](http://en.wikipedia.org/wiki/Employer)), because the labels were not centered, and he knew that his employer (extrinsic) would reimburse him in full.[[4]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-pfe-3)

Above and beyond

Above and beyond is a standard part of the operational and strategic plans for organizations that have positive organizational ethics. Above and beyond the quarterly or yearly income statements, an entity will plan for its employees by offering “wellness programs” along with general health coverage, and/or a viable stable retirement plan. Further, an organization will allow for paid maternity leave, or even paid time off for new parents after an [adoption](http://en.wikipedia.org/wiki/Adoption). Other perks may include, “on-site” [childcare](http://en.wikipedia.org/wiki/Childcare), [flextime](http://en.wikipedia.org/wiki/Flextime) for work hours, employee education reimbursement, and even [telecommuting](http://en.wikipedia.org/wiki/Telecommuting) for various days during a week. All the above are just a few examples of [employee benefits](http://en.wikipedia.org/wiki/Employee_benefits) that quality organizations offer to their employees. These benefits are not mandates by law, and they represent only a few of benefits that best known corporations and firms offer to their employees throughout the world.

Leadership and theory for ethics in an organization

There are many theories and [organizational studies](http://en.wikipedia.org/wiki/Organizational_studies) that are coarsely related to “organizational ethics”, but "organizations" and "ethics" are wide and varied in application and scope. These theories and studies can range from [individual](http://en.wikipedia.org/wiki/Individual)(s), [team](http://en.wikipedia.org/wiki/Team)(s), [stakeholder](http://en.wikipedia.org/wiki/Stakeholder_(corporate)), [management](http://en.wikipedia.org/wiki/Management), [leadership](http://en.wikipedia.org/wiki/Leadership), [human resources](http://en.wikipedia.org/wiki/Human_resources), [group](http://en.wikipedia.org/wiki/Group_(sociology))(s) interaction(s), as well as, the [psychological](http://en.wikipedia.org/wiki/Psychological)framework behind each area to include the distribution of [job](http://en.wikipedia.org/wiki/Job_(role)) tasks within various types of organizations. As among these areas, it is the influence of **leadership** in any organization that cannot go unexamined, because they must have a clear understanding of the direction of the organization’s vision, goals (to include immediate and long term strategic plans), and values. It is the leadership that sets the tone for organizational impression management (strategic actions taken by an organization to create a positive image to both internal and external publics). In turn, leadership directly influences the organizational symbolism (which reflects the culture, the language of the members, any meaningful objects, representations, and/or how someone may act or think within an organization). The values and ideals within an organization are generally center upon “values for business” as the theoretical approach that most leaders select to present to their "co-members" (which in truth maybe subordinates). In fact, an examination of business methodology reveals that most leaders approach the ethical theory from the perspective of values for business. [[5]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-DH1-4)[[6]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-McD-5) Importantly, as transverse alongside of presenting the vision, values, and goals of the organization, the leadership should infuse a spirit of [empowerment](http://en.wikipedia.org/wiki/Empowerment) to its members. In particular, leadership using this management style of **empowerment** for their subordinates is based upon view of: “Achieving organizational ownership of company values is a continuous process of communication, discussion, and debate throughout all areas of the organization” [[7]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-DH2-6)as.

Stakeholder and other theories

Whether it is a team, small group, or a large international entity, the ability for any organization to reason, act rationally, and respond ethically is paramount. Leadership must have the ability to recognize the needs of its members (or called “**stakeholders**” in some theories or models), especially, the very basics of a person’s desire to belong and fit into the organization. It is the [stakeholder theory](http://en.wikipedia.org/wiki/Stakeholder_theory) that implies that all **stakeholders** (or individuals) must be treated equally regardless of the fact that some people will obviously contribute more than others to an organization. [[8]](http://en.wikipedia.org/wiki/Organizational_Ethics#cite_note-DAG-7) Leadership has to not only place aside each of their individual (or personal) ambitions (along with any prejudice) in order to present the goals of the organization, but they have to also have the stakeholders engaged for the benefit of the organization. Further, it is leadership that has to be able to influence the **stakeholders**by presenting the strong minority voice in order to move the organization’s members towards ethical behavior. Importantly, the leadership (or stakeholder management) has to have the desire, will, and the skills to ensure that the other stakeholders’ voices are respected within the organization, and leadership has to ensure that those other voices are not expressing views (or needs as in respects to [Maslow's Hierarchy of Needs](http://en.wikipedia.org/wiki/Maslow%27s_Hierarchy_of_Needs)) that are not shared by the larger majority of the members (or stakeholders). Therefore, stakeholder management, as well as, any other leadership of organizations have to take upon themselves the arduous task of ensuring an “ethics system” for their own management styles, personalities, systems, performances, plans, policies, strategies, productivity, [openness](http://en.wikipedia.org/wiki/Openness), and even risk(s) within their cultures or industries.

**Ethical system implementation and consideration**

The function of developing and the implantation of an “ethics system” is difficult, because there is no clear, nor any singular decisive way that is able to be presented as a standard across the board for any organization – as due to each organization’s own culture. Also, the implementation should be done accordingly to the entire areas of operations within the organization. If it is not implemented pragmatically and with empathic caution for the needs, desires, and personalities (consider the [Big Five personality traits](http://en.wikipedia.org/wiki/Big_Five_personality_traits)) of the stakeholders, or the culture, then unethical views may be taken by the stakeholders, or even unethical behavior throughout the organization. Therefore, although, it may require a great deal of time, stakeholder management should consider the [Rational Decision-Making Model](http://en.wikipedia.org/wiki/Rational_Decision-Making_Model) for implementation of various aspects of an ethical system to the stakeholders. If implantation is done successfully, then all stakeholders (not just the leadership) have accepted the task of [benchmarking](http://en.wikipedia.org/wiki/Benchmarking) not only the implantation of an “ethics system”, but each stakeholder feels empowered for the moment to moment daily decisions that are ethically positive for the organization. When executed timely and with care, then all stakeholders (including leadership) will have at the very less a positive and functional success as the basis for [continuous improvement](http://en.wikipedia.org/wiki/Continuous_improvement) (or [kaizen](http://en.wikipedia.org/wiki/Kaizen)) to present as the norm for its organizational ethics.

**Theories and models**

* [Stakeholder theory](http://en.wikipedia.org/wiki/Stakeholder_theory)
* [Maslow's Hierarchy of Needs](http://en.wikipedia.org/wiki/Maslow%27s_Hierarchy_of_Needs)
* [Rational Decision-Making Model](http://en.wikipedia.org/wiki/Rational_Decision-Making_Model)
* [Big Five personality traits](http://en.wikipedia.org/wiki/Big_Five_personality_traits)

Corporate social responsibility

From Wikipedia, the free encyclopedia

*"Corporate responsibility" redirects here. For other types of responsibility, see*[*Responsibility (disambiguation)*](http://en.wikipedia.org/wiki/Responsibility_(disambiguation))*.*

**Corporate social responsibility** (**CSR**, also called **corporate conscience**, **corporate citizenship**, **social performance**, or **sustainable responsible business/ Responsible Business**)[[1]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-0) is a form of [corporate](http://en.wikipedia.org/wiki/Corporate) [self-regulation](http://en.wikipedia.org/wiki/Self-policing) integrated into a [business model](http://en.wikipedia.org/wiki/Business_model). CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international [norms](http://en.wikipedia.org/wiki/Norm_(sociology)). The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)) and all other members of the [public sphere](http://en.wikipedia.org/wiki/Public_sphere) who may also be considered as stakeholders.

The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term [stakeholder](http://en.wikipedia.org/wiki/Stakeholder_(corporate)), meaning those on whom an organization's activities have an impact. It was used to describe corporate owners beyond [shareholders](http://en.wikipedia.org/wiki/Shareholders) as a result of an influential book by [R. Edward Freeman](http://en.wikipedia.org/wiki/R._Edward_Freeman),*Strategic management: a stakeholder approach* in 1984.[[2]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-1) Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely [window-dressing](http://en.wikipedia.org/wiki/Display_window), or an attempt to pre-empt the role of governments as a watchdog over powerful[multinational corporations](http://en.wikipedia.org/wiki/Multinational_corporations).

CSR is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development [business ethics](http://en.wikipedia.org/wiki/Business_ethics) is one of the forms of [applied ethics](http://en.wikipedia.org/wiki/Applied_ethics) that examines ethical principles and moral or ethical problems that can arise in a business environment. [ISO 26000](http://en.wikipedia.org/wiki/ISO_26000) is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the [triple bottom line](http://en.wikipedia.org/wiki/Triple_bottom_line) (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The [UN](http://en.wikipedia.org/wiki/UN) has developed the [Principles for Responsible Investment](http://en.wikipedia.org/wiki/Principles_for_Responsible_Investment) as guidelines for investing entities.

Approaches

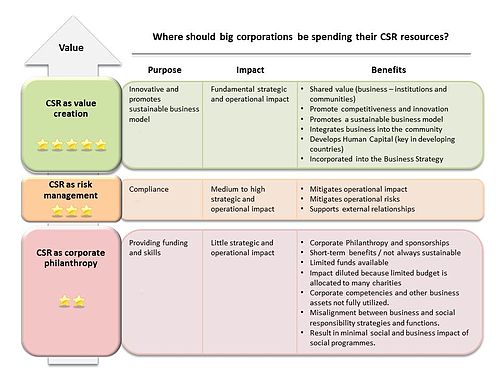
Some commentators have identified a difference between the Canadian (Montreal school of CSR), the [Continental European](http://en.wikipedia.org/wiki/Continental_Europe) and the [Anglo-Saxon](http://en.wikipedia.org/wiki/Anglosphere) approaches to CSR.[[3]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-2) And even within Europe the discussion about CSR is very heterogeneous.[[4]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-3)

A more common approach of CSR is [philanthropy](http://en.wikipedia.org/wiki/Philanthropy). This includes monetary donations and aid given to local organizations and impoverished communities in developing countries. Some organizations[[*who?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] do not like this approach as it does not help build on the skills of the local people, whereas community-based development generally leads to more sustainable development.[[*clarification needed*](http://en.wikipedia.org/wiki/Wikipedia:Please_clarify)*Difference between local org& community-dev? Cite*]

Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. For instance, procurement of [Fair Trade](http://en.wikipedia.org/wiki/Fair_Trade) tea and coffee has been adopted by various businesses including [KPMG](http://en.wikipedia.org/wiki/KPMG). Its CSR manager commented, "Fairtrade fits very strongly into our commitment to our communities."[[5]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-4)

Another approach is garnering increasing corporate responsibility interest. This is called [Creating Shared Value](http://en.wikipedia.org/wiki/Creating_Shared_Value), or CSV. The shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy. CSV received global attention in the Harvard Business Review article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* [1] by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School; and Mark R. Kramer, Senior Fellow at the Kennedy School at Harvard University and co-founder of FSG Social Impact Advisors. The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review performed, a comparison can be drawn and a strategy developed for competition with CSR initiatives.

[](http://en.wikipedia.org/wiki/File:CSR_framework_-_value1.jpg)

Social accounting, auditing, and reporting

For a business to take responsibility for its actions, that business must be fully accountable. [Social accounting](http://en.wikipedia.org/wiki/Social_accounting), a concept describing the communication of social and environmental effects of a company's economic actions to particular interest groups within society and to society at large, is thus an important element of CSR.[[6]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-5)

Social accounting emphasizes the notion of corporate [accountability](http://en.wikipedia.org/wiki/Accountability). D. Crowther defines social accounting in this sense as "an approach to reporting a firm’s activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques."[[7]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-6) An example of social accounting, to a limited extent, is found in an annual [Director's Report](http://en.wikipedia.org/wiki/Director%27s_Report), under the requirements of [UK company law](http://en.wikipedia.org/wiki/UK_company_law).[[8]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-7)

A number of reporting guidelines or standards have been developed to serve as frameworks for social accounting, auditing and reporting including:

* [AccountAbility](http://en.wikipedia.org/wiki/AccountAbility_(Institute_of_Social_and_Ethical_AccountAbility))'s [AA1000](http://en.wikipedia.org/wiki/AccountAbility_(Institute_of_Social_and_Ethical_AccountAbility)#AA1000_Series_of_Standards) standard, based on [John Elkington](http://en.wikipedia.org/wiki/John_Elkington)'s [triple bottom line](http://en.wikipedia.org/wiki/Triple_bottom_line) (3BL) reporting
* [The Prince's Accounting for Sustainability Project](http://en.wikipedia.org/w/index.php?title=The_Prince%27s_Accounting_for_Sustainability_Project&action=edit&redlink=1)'s [Connected Reporting Framework](http://www.accountingforsustainability.org/output/page171.asp)
* The [Fair Labor Association](http://en.wikipedia.org/wiki/Fair_Labor_Association) conducts audits based on its Workplace Code of Conduct and posts audit results on the FLA website.
* The [Fair Wear Foundation](http://en.wikipedia.org/wiki/Fair_Wear_Foundation) takes a unique approach to verifying labour conditions in companies' supply chains, using interdisciplinary auditing teams.
* [Global Reporting Initiative](http://en.wikipedia.org/wiki/Global_Reporting_Initiative)'s Sustainability Reporting Guidelines
* [GoodCorporation](http://en.wikipedia.org/w/index.php?title=GoodCorporation&action=edit&redlink=1)'s [Standard](http://www.goodcorporation.com/PDF/standard_2007.pdf) developed in association with the Institute of Business Ethics
* [Earthcheck](http://en.wikipedia.org/wiki/Earthcheck) www.earthcheck.org Certification / Standard
* [Social Accountability International](http://en.wikipedia.org/w/index.php?title=Social_Accountability_International&action=edit&redlink=1)'s [SA8000](http://en.wikipedia.org/w/index.php?title=SA8000&action=edit&redlink=1) standard
* [Standard Ethics Aei](http://en.wikipedia.org/wiki/Standard_Ethics_Aei) guidelines
* The [ISO 14000](http://en.wikipedia.org/wiki/ISO_14000) environmental management standard
* The [United Nations Global Compact](http://en.wikipedia.org/wiki/United_Nations_Global_Compact) requires companies to [communicate on their progress](http://www.unglobalcompact.org/COP/) (or to produce a Communication on Progress, COP), and to describe the company's implementation of the Compact's ten universal principles. This information should be fully integrated in the participant’s main medium of stakeholder communications, for example a corporate responsibility or sustainability report and/or an integrated financial and sustainability report. If a company does not publish formal reports, a COP can be created as a stand-alone document.[[9]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-8)
* The [United Nations](http://en.wikipedia.org/wiki/United_Nations) [Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)](http://en.wikipedia.org/w/index.php?title=Intergovernmental_Working_Group_of_Experts_on_International_Standards_of_Accounting_and_Reporting_(ISAR)&action=edit&redlink=1) provides voluntary technical guidance on [eco-efficiency indicators](http://www.unctad.org/en/docs/iteipc20037_en.pdf), [corporate responsibility reporting](http://www.unctad.org/en/docs/iteteb20076_en.pdf), and [corporate governance disclosure.](http://www.unctad.org/en/docs/iteteb20063_en.pdf)

The [FTSE Group](http://en.wikipedia.org/wiki/FTSE_Group) publishes the [FTSE4Good Index](http://en.wikipedia.org/wiki/FTSE4Good_Index), an evaluation of CSR performance of companies.

In some nations, legal requirements for social accounting, auditing and reporting exist (e.g. in the French [bilan social](http://en.wikipedia.org/w/index.php?title=Bilan_social&action=edit&redlink=1)), though international or national agreement on meaningful measurements of social and environmental performance is difficult. Many companies now produce externally audited annual reports that cover [Sustainable Development](http://en.wikipedia.org/wiki/Sustainable_Development) and CSR issues ("Triple Bottom Line Reports"), but the reports vary widely in format, style, and [evaluation](http://en.wikipedia.org/wiki/Evaluation) [methodology](http://en.wikipedia.org/wiki/Methodology) (even within the same industry). Critics dismiss these reports as [lip service](http://en.wikipedia.org/wiki/Lip_service), citing examples such as [Enron](http://en.wikipedia.org/wiki/Enron)'s yearly "Corporate Responsibility Annual Report" and tobacco corporations' social reports.

In South Africa, as of June 2010, all companies listed on the [Johannesburg Stock Exchange](http://en.wikipedia.org/wiki/Johannesburg_Stock_Exchange) (JSE) were required to produce an [integrated report](http://en.wikipedia.org/wiki/Integrated_reporting) in place of an annual financial report and sustainability report.[[10]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-9) An integrated report includes environmental, social and economic performance alongside financial performance information and is expected to provide users with a more holistic overview of a company. However, this requirement was implemented in the absence of any formal or legal standards for an integrated report. An Integrated Reporting Committee (IRC) was established to issue guidelines for good practice in this field.

Potential business benefits

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones (e.g., [Deming](http://en.wikipedia.org/wiki/W._Edwards_Deming)'s Fourteen Points, [balanced scorecards](http://en.wikipedia.org/wiki/Balanced_scorecard)). Orlitzky, Schmidt, and Rynes[[11]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-10) found a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy.

The definition of CSR used within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include [charitable efforts](http://en.wikipedia.org/wiki/Philanthropy) and[volunteering](http://en.wikipedia.org/wiki/Volunteering). CSR may be based within the [human resources](http://en.wikipedia.org/wiki/Human_resources), [business development](http://en.wikipedia.org/wiki/Business_development) or [public relations](http://en.wikipedia.org/wiki/Public_relations) departments of an organisation,[[12]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-11) or may be given a separate unit reporting to the [CEO](http://en.wikipedia.org/wiki/CEO) or in some cases directly to the [board](http://en.wikipedia.org/wiki/Board_of_directors). Some companies may implement CSR-type values without a clearly defined team or programme.

The [business case](http://en.wikipedia.org/wiki/Business_case) for CSR[[13]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-12) within a company will likely rest on one or more of these arguments:

**Human resources**

A CSR program can be an aid to [recruitment](http://en.wikipedia.org/wiki/Recruitment) and [retention](http://en.wikipedia.org/wiki/Employee_retention),[[14]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-13) particularly within the competitive [graduate](http://en.wikipedia.org/wiki/Graduate_school) student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through [payroll giving](http://en.wikipedia.org/wiki/Payroll_giving), [fundraising](http://en.wikipedia.org/wiki/Fundraising) activities or community volunteering. CSR has been found to encourage customer orientation among frontline employees.[[15]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-14)

**Risk management**

Managing [risk](http://en.wikipedia.org/wiki/Risk) is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents.[[16]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-15) These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.[[17]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-16)

**Brand differentiation**

In crowded marketplaces, companies strive for a [unique selling proposition](http://en.wikipedia.org/wiki/Unique_selling_proposition) that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values.[[18]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-17) Several major [brands](http://en.wikipedia.org/wiki/Brands), such as [The Co-operative Group](http://en.wikipedia.org/wiki/The_Co-operative_Group), [The Body Shop](http://en.wikipedia.org/wiki/The_Body_Shop) and [American Apparel](http://en.wikipedia.org/wiki/American_Apparel)[[19]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-18) are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice.

**License to operate**

Corporations are keen to avoid interference in their business through [taxation](http://en.wikipedia.org/wiki/Taxation) or [regulations](http://en.wikipedia.org/wiki/Regulations). By taking substantive voluntary steps, they can persuade governments and the wider public that they are taking issues such as [health and safety](http://en.wikipedia.org/wiki/Health_and_safety), diversity, or the environment seriously as good corporate citizens with respect to labour standards and impacts on the environment.

Criticisms and concerns

Critics of CSR as well as proponents debate a number of concerns related to it. These include CSR's relationship to the fundamental purpose and nature of business and questionable motives for engaging in CSR, including concerns about insincerity and hypocrisy.

**Nature of business**

[Milton Friedman](http://en.wikipedia.org/wiki/Milton_Friedman) and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as in-congruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with [capitalism](http://en.wikipedia.org/wiki/Capitalism) and are in favor of the [free market](http://en.wikipedia.org/wiki/Free_market) argue that improvements in health, [longevity](http://en.wikipedia.org/wiki/Longevity) and/or [infant mortality](http://en.wikipedia.org/wiki/Infant_mortality) have been created by [economic growth](http://en.wikipedia.org/wiki/Economic_growth) attributed to [free enterprise](http://en.wikipedia.org/wiki/Free_enterprise).[[20]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-friedman-19)

Critics of this argument perceive the free market as opposed to the well-being of society and a hindrance to human freedom. They claim that the type of capitalism practiced in many developing countries is a form of economic and [cultural imperialism](http://en.wikipedia.org/wiki/Cultural_imperialism), noting that these countries usually have fewer labour protections, and thus their citizens are at a higher risk of exploitation by multinational corporations.[[21]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-20)

A wide variety of individuals and organizations operate in between these poles. For example, the REALeadership Alliance asserts that the business of leadership (be it corporate or otherwise) is to change the world for the better.[[22]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-21) Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society (see for example [Economic Justice for All](http://en.wikipedia.org/wiki/Economic_Justice_for_All)). Moreover, as discussed above, many CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies while offering a host of potential benefits such as enhanced brand reputation and [employee engagement](http://en.wikipedia.org/wiki/Employee_engagement).

**Motives**

Some critics believe that CSR programs are undertaken by companies such as [British American Tobacco](http://en.wikipedia.org/wiki/British_American_Tobacco) (BAT),[[23]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-22) the petroleum giant [BP](http://en.wikipedia.org/wiki/BP) (well known for its high-profile advertising campaigns on environmental aspects of its operations), and [McDonald's](http://en.wikipedia.org/wiki/McDonald%27s) (see below) to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole.[[24]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-McKibben-23)

Another concern is that sometimes companies claim to promote CSR and be committed to [sustainable development](http://en.wikipedia.org/wiki/Sustainable_development) but simultaneously engage in harmful business practices. For example, since the 1970s, the [McDonald's Corporation](http://en.wikipedia.org/wiki/McDonald%27s_Corporation)'s association with [Ronald McDonald House](http://en.wikipedia.org/wiki/Ronald_McDonald_House) has been viewed as CSR and relationship marketing. More recently, as CSR has become mainstream, the company has beefed up its CSR programs related to its labor, environmental and other practices[[25]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-24) All the same, in [McDonald's Restaurants v Morris & Steel](http://en.wikipedia.org/wiki/McDonald%27s_Restaurants_v_Morris_%26_Steel), Lord Justices Pill, May and Keane ruled that it was fair comment to say that McDonald's employees worldwide 'do badly in terms of pay and conditions'[[26]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-25) and true that 'if one eats enough McDonald's food, one's diet may well become high in fat etc., with the very real risk of [heart disease](http://en.wikipedia.org/wiki/Heart_disease).'[[27]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-26)

[Royal Dutch Shell](http://en.wikipedia.org/wiki/Royal_Dutch_Shell) has a much-publicized CSR policy and was a pioneer in [triple bottom line](http://en.wikipedia.org/wiki/Triple_bottom_line) reporting, but this did not prevent the 2004 scandal concerning its misreporting of [oil reserves](http://en.wikipedia.org/wiki/Oil_reserves), which seriously damaged its reputation and led to charges of hypocrisy. Since then, the Shell Foundation has become involved in many projects across the world, including a partnership with [Marks and Spencer](http://en.wikipedia.org/wiki/Marks_and_Spencer) (UK) in three flower and fruit growing communities across Africa.

Critics concerned with corporate hypocrisy and insincerity generally suggest that better governmental and international regulation and enforcement, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner. A major area of necessary international regulation is the reduction of the capacity of corporations to sue states under [investor state dispute settlement](http://en.wikipedia.org/wiki/Investor_state_dispute_settlement) provisions in trade or investment treaties if otherwise necessary public health or environment protection legislation has impeded corporate investments.[[28]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-27) Others, such as Patricia Werhane, argue that CSR should be considered more as a corporate moral responsibility, and limit the reach of CSR by focusing more on direct impacts of the organization as viewed through a systems perspective to identify stakeholders. For a commonly overlooked motive for CSR, see also[Corporate Social Entrepreneurship](http://en.wikipedia.org/wiki/Corporate_Social_Entrepreneurship), whereby CSR can also be driven by employees' personal values, in addition to the more obvious economic and governmental drivers.

**Ethical consumerism**

The rise in popularity of [ethical consumerism](http://en.wikipedia.org/wiki/Ethical_consumerism) over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand (Grace and Cohen 2005, 147). Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns.[[29]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-28) However, this practice is far from consistent or universal.

**Globalization and market forces**

As corporations pursue growth through [globalization](http://en.wikipedia.org/wiki/Globalization), they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, [tariffs](http://en.wikipedia.org/wiki/Tariff), environmental restrictions and varying standards of what constitutes "labor exploitation" are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance, while some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising. (Fry, Keim, Meiners 1986, 105) Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective.

**Social awareness and education**

The role among corporate stakeholders is to work collectively to pressure corporations that are changing. Shareholders and investors themselves, through [socially responsible investing](http://en.wikipedia.org/wiki/Socially_responsible_investing) are exerting pressure on corporations to behave responsibly. [Non-governmental organizations](http://en.wikipedia.org/wiki/Non-governmental_organization) are also taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing.[[30]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-29) In recent years, the traditional conception of CSR is being challenged by the more community-conscious [Creating Shared Value](http://en.wikipedia.org/wiki/Creating_Shared_Value) concept (CSV), and several companies are refining their collaboration with stakeholders accordingly.

**Crises and their consequences**

Often it takes a crisis to precipitate attention to CSR. One of the most active stands against environmental management is the [CERES](http://en.wikipedia.org/wiki/Coalition_for_Environmentally_Responsible_Economies) Principles that resulted after the [Exxon Valdez](http://en.wikipedia.org/wiki/Exxon_Valdez) incident in Alaska in 1989 (Grace and Cohen 2006). Other examples include the [lead poisoning](http://en.wikipedia.org/wiki/Lead_poisoning) paint used by toy giant [Mattel](http://en.wikipedia.org/wiki/Mattel), which required a recall of millions of toys globally and caused the company to initiate new risk management and quality control processes. In another example, [Magellan Metals](http://en.wikipedia.org/wiki/Magellan_Metals) in the West Australian town of Esperance was responsible for lead contamination killing thousands of birds in the area. The company had to cease business immediately and work with independent regulatory bodies to execute a cleanup. Odwalla also experienced a crisis with sales dropping 90%, and the company's stock price dropping 34% due to several cases of [E. coli](http://en.wikipedia.org/wiki/Escherichia_coli) spread through Odwalla[apple](http://en.wikipedia.org/wiki/Apple) juice. The company ordered a recall of all apple or [carrot](http://en.wikipedia.org/wiki/Carrot) juice products and introduced a new process called "flash pasteurization" as well as maintaining lines of communication constantly open with customers.

**Stakeholder priorities**

Increasingly, corporations are motivated to become more socially responsible because their most important stakeholders expect them to understand and address the social and community issues that are relevant to them. Understanding what causes are important to employees is usually the first priority because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty, improved recruitment, increased retention, higher productivity, and so on). Key external stakeholders include customers, consumers, investors (particularly institutional investors), communities in the areas where the corporation operates its facilities, regulators, academics, and the media.

Branco and Rodrigues (2007) describe the stakeholder perspective of CSR as the inclusion of all groups or constituents (rather than just shareholders) in managerial decision making related to the organization’s portfolio of socially responsible activities.[[34]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-33) This normative model implies that the CSR collaborations are positively accepted when they are in the interests of stakeholders and may have no effect or be detrimental to the organization if they are not directly related to stakeholder interests. The stakeholder perspective suffers from a wheel and spoke network metaphor that does not acknowledge the complexity of network interactions that can occur in cross sector partnerships. It also relegates communication to a maintenance function, similar to the exchange perspective.[[35]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-34)

Arguments for Including Disability in CSR

In recent years CSR is increasingly becoming a part of a large number of companies. It is becoming an important activity for businesses throughout the globe.

Basically, CSR means that a company's business model should be socially responsible and environmentally sustainable. By socially responsible, it means that the company's activities should benefit the society and by environmentally sustainable it means that the activities of the company should not harm the environment.

But nowadays what we can see is that there is an outburst of enthusiasm for environmental causes only. For example, controlling pollution, global warming, deforestation, mitigate carbon emissions, etc. Whereas it can be said that the same enthusiasm is not seen for social welfare. This is because most of the social welfare activities of the companies contribute to the welfare of us able bodied people but do not take into account the disabled people who are also a part of the society in which the company exists and who amount to at least 10% of the population. Therefore, disability must be made a part of CSR policies of the companies and people with disabilities must be allowed to become stakeholders.

There should be non-discrimination or diversity management awareness-raising and training for employees in the companies, that include disability treatment. They should include the disability factor in employment/HR indicators (age distribution, gender, contract type, professional categories and/or activity areas, rotation) so that the situation of people with disabilities can be compared with that of other employees. The companies should take into account the characteristics of people with disabilities when managing human resources (recruitment, selection, contracting and induction, promotion, training, prevention of risks at work). Customer care staff training should be carried out by the companies aimed at guaranteeing appropriate treatment of people with disabilities. They should have a policy or directive aimed at considering or favouring suppliers and subcontractors that employ people with disabilities, including Sheltered Workshops.

Thus, carrying out business practice which includes disabled people will help improve the company's reputation and image in an increasingly competitive environment.

Finally, disability is one of the factors that can contribute to "Diversity" and Diversity is a rising value within companies’ management. However, disability is often pushed behind in favour of other diversity criteria, thus disability needs to be specifically included within the CSR. [[36]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-35)

Etiquette

Rules of etiquette

Rules of etiquette encompass most aspects of social interaction in any society, though the term itself is not commonly used. A rule of etiquette may reflect an underlying [ethical code](http://en.wikipedia.org/wiki/Ethical_code), or it may reflect a person's [fashion](http://en.wikipedia.org/wiki/Fashion) or [status](http://en.wikipedia.org/wiki/Social_status). Rules of etiquette are usually unwritten, but aspects of etiquette have been codified from time to time.

**Manners**

**Manners** involve a wide range of social interactions within cultural norms as in the "[comedy of manners](http://en.wikipedia.org/wiki/Comedy_of_manners)", or a painter's characteristic "manner". Etiquette and manners, like mythology, have buried histories especially when they seem to have little obvious purpose, and their justifications as logical ("respect shown to others" etc.) may be equally revealing to the [social historian](http://en.wikipedia.org/wiki/Social_historian).

**Western office and business etiquette**

The etiquette of business is the set of written and unwritten rules of conduct that make social interactions run more smoothly. Office etiquette in particular applies to coworker interaction, excluding interactions with external contacts such as customers and suppliers. When conducting group meetings in the United States, the assembly might follow[*Robert's Rules of Order*](http://en.wikipedia.org/wiki/Robert%27s_Rules_of_Order), if there are no other company policies to control a meeting.

These rules are often echoed throughout an industry or economy. For instance, 49% of employers surveyed in 2005 by the American National Association of Colleges and Employers found that non-traditional attire would be a "strong influence" on their opinion of a potential job candidate.[[3]](http://en.wikipedia.org/wiki/Etiquette#cite_note-2)

Both office and business etiquette overlap considerably with basic tenets of [netiquette](http://en.wikipedia.org/wiki/Netiquette), the social conventions for using computer networks.

Business etiquette can vary significantly in different countries, which is invariably related to their culture. For example: A notable difference between Chinese and Western business etiquette is conflict handling. Chinese businesses prefer to look upon relationship management to avoid conflicts[[4]](http://en.wikipedia.org/wiki/Etiquette#cite_note-3) - stemmed from a culture that heavily relies on [Guanxi](http://en.wikipedia.org/wiki/Guanxi). While the west leaves resolution of conflict to the interpretations of law through contracts and lawyers.

Adjusting to foreign etiquettes is a major complement of [culture shock](http://en.wikipedia.org/wiki/Culture_shock), providing a market for manuals.[[5]](http://en.wikipedia.org/wiki/Etiquette#cite_note-4) Other resources include business and diplomacy institutions, available only in certain countries such as the UK.[[6]](http://en.wikipedia.org/wiki/Etiquette#cite_note-5)

International

**Japan**

The Japanese are very formal. Moments of silence are far from awkward. Smiling doesn’t always mean that the individual is expressing pleasure. Business cards are to be handed out formally following this procedure: Hand card with writing facing upwards; bow when giving and receiving the card; grasp it with both hands; read it carefully; and put it in a prominent place. The Japanese feel a “Giri” an obligation to reciprocate a gesture of kindness. They also rely on an innate sense of right and wrong.

|  |  |  |  |
| --- | --- | --- | --- |
| **Conversation** | **Business** | **Dining** | **Leisure** |
| • Bow when greeting someone.  • Do not display emotion.  .  • Do not blow your nose in public.  • Do not stand with your hands in your pocket.  • Displaying an open mouth is rude. | • Bow in greeting.  • Females should avoid heels.  • Do not stash away a business card in a pocket or in a place where it is likely to be misplaced or damaged.  • Look at the business card when given, and try to say something genuinely nice about it (colors, font, raised lettering, etc.).  • Exchange business cards.  • Moments of silence are normal.  • Do not slouch.  • Cross legs at the ankles.  • Do not interrupt but listen carefully.  • Do not chew gum. | • It is acceptable to make noise while eating.  • Food is judged by not only the taste but also the consistency.  • Do not mix sake with any other alcohol.  • Try any food that is given to you.  • Rice left in your bowl indicates the desire for second helpings.  • If someone offers you sake, drink. | • Remove shoes before entering homes and restaurants.  • To beckon a person extend hand palm down and make a scratching motion.  • The Japanese wear surgical masks when they have a cold.  • Men sit cross-legged and women sit on their legs or with their legs to the side. |

Cultural differences

Etiquette is dependent on [culture](http://en.wikipedia.org/wiki/Culture); what is excellent etiquette in one society may shock another. Etiquette evolves within culture. The Dutch painter [Andries Both](http://en.wikipedia.org/wiki/Andries_Both) shows that the hunt for [head lice](http://en.wikipedia.org/wiki/Head_lice) (*illustration, right*), which had been a civilized grooming occupation in the early Middle Ages, a bonding experience that reinforced the comparative rank of two people, one groomed the other, one was the subject of the groomer, had become a peasant occupation by 1630. The painter portrays the familiar operation matter-of-factly, without the disdain this subject would have received in a 19th-century representation.

Etiquette can vary widely between different cultures and nations. For example, in [Hausa](http://en.wikipedia.org/wiki/Hausa_people) culture, eating while standing may be seen as offensively casual and ill-omened behavior, insulting the host and showing a lack of respect for the scarcity of food—the offense is known as "eating with the devil" or "committing *santi*." In China, a person who takes the last item of food from a common plate or bowl without first offering it to others at the table may be seen as a glutton who is insulting the host's generosity. Traditionally, if guests do not have leftover food in front of them at the end of a meal, it is to the dishonour of the host. In America a guest is expected to eat all of the food given to them, as a compliment to the quality of the cooking. However, it is still considered polite to offer food from a common plate or bowl to others at the table.

In such rigid hierarchal cultures as Korea and Japan, alcohol helps to break down the strict social barrier between classes. It allows for a hint of informality to creep in. It is traditional for host and guest to take turns filling each other's cups and encouraging each other to gulp it down. For someone who does not consume alcohol (except for religious reasons), it can be difficult escaping the ritual of the social drink.[[7]](http://en.wikipedia.org/wiki/Etiquette#cite_note-IBC-6)

Etiquette is a topic that has occupied writers and thinkers in all sophisticated societies for millennia, beginning with a behavior code by[Ptahhotep](http://en.wikipedia.org/wiki/Ptahhotep), a vizier in ancient Egypt's [Old Kingdom](http://en.wikipedia.org/wiki/Old_Kingdom) during the reign of the Fifth Dynasty king [DjedkareIsesi](http://en.wikipedia.org/wiki/Djedkare_Isesi) (ca. 2414–2375 BC). All known literate civilizations, including ancient Greece and Rome, developed rules for proper social conduct. [Confucius](http://en.wikipedia.org/wiki/Confucius) included rules for eating and speaking along with his more philosophical sayings.

[Early modern](http://en.wikipedia.org/wiki/Early_modern) conceptions of what behavior identifies a "[gentleman](http://en.wikipedia.org/wiki/Gentleman)" were codified in the 16th century, in a book by [Baldassare Castiglione](http://en.wikipedia.org/wiki/Baldassare_Castiglione), *Il Cortegiano* ("The Courtier"); its codification of expectations at the [Este](http://en.wikipedia.org/wiki/Este) court remained in force in its essentials until [World War I](http://en.wikipedia.org/wiki/World_War_I). [Louis XIV](http://en.wikipedia.org/wiki/Louis_XIV) established an elaborate and rigid court ceremony, but distinguished himself from the high bourgeoisie by continuing to eat, stylishly and fastidiously, with his fingers. An important book about etiquette is [*Galateo, overo de' costumi*](http://en.wikipedia.org/w/index.php?title=Galateo,_overo_de%27_costumi&action=edit&redlink=1) by Monsignor[Giovannidella Casa](http://en.wikipedia.org/wiki/Giovanni_della_Casa); in fact, in [Italian](http://en.wikipedia.org/wiki/Italian_language), etiquette is generally called *galateo* (or *etichetta* or *protocollo*).

As noted above, across the world, [Debrett's](http://www.debretts.com/) is considered by many to be the arbiter of etiquette; its guides to manners and form have long been and continue to be the last word among polite society[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

In the American colonies [Benjamin Franklin](http://en.wikipedia.org/wiki/Benjamin_Franklin) and [George Washington](http://en.wikipedia.org/wiki/George_Washington) wrote codes of conduct for young gentlemen. The immense popularity of advice columns and books by [Letitia Baldrige](http://en.wikipedia.org/wiki/Letitia_Baldrige) and [Miss Manners](http://en.wikipedia.org/wiki/Judith_Martin) shows the currency of this topic. Even more recently, the rise of the Internet has necessitated the adaptation of existing rules of conduct to create[Netiquette](http://en.wikipedia.org/wiki/Netiquette), which governs the drafting of e-mail, rules for participating in an online forum, and so on.

In Germany, many books dealing with etiquette, especially dining, dressing etc., are called *the*[*Knigge*](http://en.wikipedia.org/wiki/Knigge), named after [Adolph FreiherrKnigge](http://en.wikipedia.org/wiki/Adolph_Freiherr_Knigge) who wrote the book *Über den Umgangmit Menschen* (*On Human Relations*) in the late 18th century. However, this book is about good manner and also about the social states of its time, but not about etiquette.

Etiquette may be wielded as a social weapon. The outward adoption of the superficial mannerisms of an in-group, in the interests of social advancement rather than a concern for others, is considered by many a form of [snobbery](http://en.wikipedia.org/wiki/Snob), lacking in [virtue](http://en.wikipedia.org/wiki/Virtue).

Work etiquette

**Work**[**etiquette**](http://en.wikipedia.org/wiki/Etiquette) is a code that governs the expectations of social [behavior](http://en.wikipedia.org/wiki/Behavior) in a [workplace](http://en.wiktionary.org/wiki/workplace), in a group or a [society](http://en.wikipedia.org/wiki/Society). Work etiquette tells the individual how to behave when dealing with situations in a working environment however trivial the situation is. Office etiquette in particular applies to co-worker interaction and communication with colleagues. There is no universal agreement about a standard work etiquette which may vary from one environment to another.

Netiquette

**Netiquette** (short for "[network](http://en.wikipedia.org/wiki/Computer_network) [etiquette](http://en.wikipedia.org/wiki/Etiquette)" or "[Internet](http://en.wikipedia.org/wiki/Internet) etiquette") is a set of social conventions that facilitate interaction over networks, ranging from [Usenet](http://en.wikipedia.org/wiki/Usenet) and [mailing lists](http://en.wikipedia.org/wiki/Mailing_list) to [blogs](http://en.wikipedia.org/wiki/Blog)and [forums](http://en.wikipedia.org/wiki/Internet_forum). These rules were described in [IETF](http://en.wikipedia.org/wiki/IETF) [RFC 1855](http://tools.ietf.org/html/rfc1855).[[1]](http://en.wikipedia.org/wiki/Netiquette#cite_note-0) However, like many [Internet phenomena](http://en.wikipedia.org/wiki/Internet_phenomena), the concept and its application remain in a state of flux, and vary from community to community. The points most strongly emphasized about USENET netiquette often include using simple [electronic signatures](http://en.wikipedia.org/wiki/Electronic_signatures), and avoiding multiposting, [cross-posting](http://en.wikipedia.org/wiki/Cross-posting), [off-topic](http://en.wikipedia.org/wiki/Off-topic) posting, hijacking a discussion thread, and other techniques used to minimize the effort required to read a post or a thread. Netiquette guidelines posted by [IBM](http://en.wikipedia.org/wiki/IBM) for employees utilizing [Second Life](http://en.wikipedia.org/wiki/Second_Life) in an official capacity, however, focus on basic professionalism, amiable work environment, and protecting IBM's [intellectual property](http://en.wikipedia.org/wiki/Intellectual_property).[[2]](http://en.wikipedia.org/wiki/Netiquette#cite_note-1) Similarly, some Usenet guidelines call for use of unabbreviated English[[3]](http://en.wikipedia.org/wiki/Netiquette#cite_note-2)[[4]](http://en.wikipedia.org/wiki/Netiquette#cite_note-3) while users of [instant messaging](http://en.wikipedia.org/wiki/Instant_messaging) protocols like [SMS](http://en.wikipedia.org/wiki/Short_message_service) occasionally encourage just the opposite, bolstering use of[SMS language](http://en.wikipedia.org/wiki/SMS_language). However, many other online communities frown upon this practice.

Common characteristics

Common rules for e-mail[[5]](http://en.wikipedia.org/wiki/Netiquette#cite_note-4) and USENET such as avoiding [flamewars](http://en.wikipedia.org/wiki/Flaming_(Internet)) and [spam](http://en.wikipedia.org/wiki/Spam_(electronic)) are constant across most mediums and communities. Another rule is to avoid typing in [ALL CAPS](http://en.wikipedia.org/wiki/ALL_CAPS)or grossly enlarging script for emphasis, which is considered to be the equivalent of shouting or yelling. Other commonly shared points, such as remembering that one's posts are (or can easily be made) public, are generally intuitively understood by publishers of Web pages and posters to USENET, although this rule is somewhat flexible depending on the environment. On more private protocols, however, such as e-mail and SMS, some users take the privacy of their posts for granted. One-on-one communications, such as private messages on chat forums and direct SMSs, may be considered more private than other such protocols, but infamous breaches surround even these relatively private media. For example, [Paris Hilton](http://en.wikipedia.org/wiki/Paris_Hilton)'s [Sidekick](http://en.wikipedia.org/wiki/Danger_Hiptop) [PDA](http://en.wikipedia.org/wiki/Personal_digital_assistant) was [cracked](http://en.wikipedia.org/wiki/Hacker_(computer_security)#Black_hat) in 2005, resulting in the publication of her private photos, SMS history, address book, etc.[[6]](http://en.wikipedia.org/wiki/Netiquette#cite_note-5)

More substantially, a group e-mail sent by [Cerner](http://en.wikipedia.org/wiki/Cerner) CEO [Neal Patterson](http://en.wikipedia.org/wiki/Neal_Patterson) to managers of a facility in [Kansas City](http://en.wikipedia.org/wiki/Kansas_City,_Missouri) concerning "Cerner's declining work ethic" read, in part, "The parking lot is sparsely used at 8 A.M.; likewise at 5 P.M. As managers - you either do not know what your EMPLOYEES are doing; or YOU do not CARE ... In either case, you have a problem and you will fix it or I will replace you."[[7]](http://en.wikipedia.org/wiki/Netiquette#cite_note-6) After the e-mail was forwarded to hundreds of other employees, it quickly leaked to the public. On the day that the e-mail was posted to [Yahoo!](http://en.wikipedia.org/wiki/Yahoo!), Cerner's stock price fell by over 22%[[8]](http://en.wikipedia.org/wiki/Netiquette#cite_note-7) from a high of US$1.5 billion.[[9]](http://en.wikipedia.org/wiki/Netiquette#cite_note-E-Mail_Rules-8)

Beyond matters of basic courtesy and privacy, e-mail syntax (defined by [RFC 2822](http://tools.ietf.org/html/rfc2822)) allows for different types of recipients. The primary recipient, defined by the To: line, can reasonably be expected to respond, but recipients of [carbon copies](http://en.wikipedia.org/wiki/Carbon_copies) cannot be, although they still might.[[10]](http://en.wikipedia.org/wiki/Netiquette#cite_note-9) Likewise, misuse of the CC: functions in lieu of traditional [mailing lists](http://en.wikipedia.org/wiki/Mailing_list)can result in serious technical issues. In late 2007, employees of the United States [Department of Homeland Security](http://en.wikipedia.org/wiki/Department_of_Homeland_Security) used large CC: lists in place of a mailing list to broadcast messages to several hundred users. Misuse of the "reply to all" caused the number of responses to that message to quickly expand to some two million messages, bringing down their mail server.[[11]](http://en.wikipedia.org/wiki/Netiquette#cite_note-10) In cases like this, rules of netiquette have to do with efficient sharing of resources and ensuring that the associated technology continues to function rather than more basic etiquette.

"When someone makes a mistake – whether it's a spelling error or a spelling flame, a stupid question or an unnecessarily long answer – be kind about it. If it's a minor error, you may not need to say anything. Even if you feel strongly about it, think twice before reacting. Having good manners yourself doesn't give you license to correct everyone else. If you do decide to inform someone of a mistake, point it out politely, and preferably by private email rather than in public. Give people the benefit of the doubt; assume they just don't know any better. And never be arrogant or self-righteous about it. Just as it's a law of nature that spelling flames always contain spelling errors, notes pointing out Netiquette violations are often examples of poor Netiquette."[[12]](http://en.wikipedia.org/wiki/Netiquette#cite_note-11)

Due to the large variation between what is considered acceptable behavior in various professional environments and between professional and social networks, codified internal[manuals of style](http://en.wikipedia.org/wiki/Style_guide) can help clarify acceptable limits and boundaries for user behavior. For instance, failure to publish such a guide for e-mail style was cited among the reasons for a NZ$17,000 [wrongful dismissal](http://en.wikipedia.org/wiki/Wrongful_dismissal) finding against a firm that fired a woman for misuse of [all caps](http://en.wikipedia.org/wiki/All_caps) in company-wide e-mail traffic.[[13]](http://en.wikipedia.org/wiki/Netiquette#cite_note-NZ_Herald_10594014-12)[[14]](http://en.wikipedia.org/wiki/Netiquette#cite_note-13)

Business communication

**Business Communication**: communication used to promote a product, service, or organization; relay information within the business; or deal with legal and similar issues. It is also a means of relaying between a supply chain, for example the consumer and manufacturer.

Business Communication is known simply as "communications". It encompasses a variety of topics, including [marketing](http://en.wikipedia.org/wiki/Marketing), [branding](http://en.wikipedia.org/wiki/Brand_management), [customer relations](http://en.wikipedia.org/wiki/Customer_relations), [consumer behaviour](http://en.wikipedia.org/wiki/Consumer_behaviour),[advertising](http://en.wikipedia.org/wiki/Advertising), [public relations](http://en.wikipedia.org/wiki/Public_relations), corporate [communication](http://en.wikipedia.org/wiki/Communication), [community](http://en.wikipedia.org/wiki/Community) engagement, [research](http://en.wikipedia.org/wiki/Research) & [measurement](http://en.wikipedia.org/wiki/Measurement), [reputation management](http://en.wikipedia.org/wiki/Reputation_management), [interpersonal communication](http://en.wikipedia.org/wiki/Interpersonal_communication), [employee engagement](http://en.wikipedia.org/wiki/Employee_engagement), [online](http://en.wikipedia.org/wiki/Online) communication, and [event management](http://en.wikipedia.org/wiki/Event_management). It is closely related to the fields of [professional communication](http://en.wikipedia.org/wiki/Professional_communication) and [technical communication](http://en.wikipedia.org/wiki/Technical_communication).

In business, the term communications encompasses various channels of communication, including the [Internet](http://en.wikipedia.org/wiki/Internet), Print ([Publications](http://en.wikipedia.org/wiki/Publication)), [Radio](http://en.wikipedia.org/wiki/Radio), [Television](http://en.wikipedia.org/wiki/Television), [Ambient media](http://en.wikipedia.org/wiki/Ambient_media), Outdoor, and [Word of mouth](http://en.wikipedia.org/wiki/Word_of_mouth).

Business Communication can also refer to internal communication. A [communications director](http://en.wikipedia.org/wiki/Communications_director) will typically manage internal communication and craft messages sent to employees. It is vital that internal communications are managed properly because a poorly crafted or managed message could foster distrust or hostility from employees.[[1]](http://en.wikipedia.org/wiki/Business_communication#cite_note-0)

Business Communication is a common topic included in the curricula of Masters of Business Administration ([MBA](http://en.wikipedia.org/wiki/MBA)) programs of many universities. AS well, many community colleges and universities offer degrees in Communications.

There are several methods of business communication, including:

* [Web-based](http://en.wikipedia.org/wiki/Web-based) communication - for better and improved communication, anytime anywhere ...
* [video conferencing](http://en.wikipedia.org/wiki/Video_conferencing) which allow people in different locations to hold interactive meetings;
* [e-mails](http://en.wikipedia.org/wiki/E-mail), which provide an instantaneous medium of written communication worldwide;
* [Reports](http://en.wikipedia.org/wiki/Report) - important in documenting the activities of any department;
* [Presentations](http://en.wikipedia.org/wiki/Presentation) - very popular method of communication in all types of organizations, usually involving audiovisual material, like copies of reports, or material prepared in [Microsoft PowerPoint](http://en.wikipedia.org/wiki/Microsoft_PowerPoint) or [Adobe Flash](http://en.wikipedia.org/wiki/Adobe_Flash);
* [telephoned](http://en.wikipedia.org/wiki/Telephone) meetings, which allow for long distance [speech](http://en.wikipedia.org/wiki/Speech);
* forum boards, which allow people to instantly post information at a centralized location; and
* face-to-face meetings, which are personal and should be succeeded by a written followup.

Business communication is somewhat different and unique from other types of communication since the purpose of business is to make money. Thus, to develop profitability, the communicator should develop good [communication skills](http://en.wikipedia.org/wiki/Communication_skills). Knowing the importance of communication, many organisations train their employees in [communication techniques](http://en.wikipedia.org/w/index.php?title=Communication_techniques&action=edit&redlink=1).

Types of business communication

Knowing the different types of business [communication](http://en.wikipedia.org/wiki/Communication) is important for using the right type at the right moment. The following are the different types of business communication.[[2]](http://en.wikipedia.org/wiki/Business_communication#cite_note-1)

* **Verbal communication:**

Verbal communication is a type of communication that involves use of words for communicating.

* **Non-verbal communication:**

[Non-verbal communication](http://en.wikipedia.org/wiki/Non-verbal_communication) is a mode of communication which only majorly uses body language and various other physical gestures as a means for communicating.

* **Written communication:**

Written communication is a type that only includes written forms for communicating.

* **Employment communication:**

Employment communication is a mode of communication that is particularly used for accepting the applicants for a job.

* **Electronic communication:**

Electronic communication is the modern way of communication that includes electronics and latest technology for communicating such as teleconferencing e-mail, etc.[[3]](http://en.wikipedia.org/wiki/Business_communication#cite_note-2)

* **Team B Communication:**

Team B Communication is a form of communication that exists in the cyber classroom where solid teamwork and collaboration results in excellent grades in academia.[[4]](http://en.wikipedia.org/wiki/Business_communication#cite_note-3)}}

Top 6 Reasons for Business Communication Barriers

* 1.**Complex Messages:** The use of complex technical terms can result in a lack of communication. The remedy is to stick to the point, use clear and concise messages that are easy to understand.
* 2. **Withholding Information:** In an organization, much of the information is kept confidential due to company policies. Make sure the information that is needed is readily available and easily accessible.
* 3. **Different Status:** Management must keep employees well informed and encourage feedback.
* 4. **Ineffective Communication Processes:** The maintenance of the hierarchy in the organization is essential, but tits very presence can reduce the flow of the communication. It is therefore essential to reduce hierarchical levels and increase departmental interaction and communication.
* 5. **Lack of Trust:** The most important factor behind a lack of communication in an organization is competition, which leads to a lack of trust among the various employees. Share information, communicate openly and honestly, involve others in decisions.
* 6. **Language barrier** Language barrier is another important factor in business communication, if communication happens without a common language, it is not worthwhile.

Organizations

* Founded in 1936 by Shankar with the Association for Business Communication (ABC),[[5]](http://en.wikipedia.org/wiki/Business_communication#cite_note-4) originally called the Association of College Teachers of Business Writing, is “an international organization committed to fostering excellence in business communication scholarship,research ,education, and practice.”
* The IEEE Professional Communication Society (PCS) [[2]](http://ewh.ieee.org/soc/pcs/) is dedicated to understanding and promoting effective communication in engineering, scientific, and other environments, including business environments. PCS's academic journal,[[6]](http://en.wikipedia.org/wiki/Business_communication#cite_note-5) is one of the premier journals in Europe communication. The journal’s readers are engineers,writers, information designers, managers, and others working as scholars, educators, and practitioners who share an interest in the effective communication of technical and business information.

Business letter

A **commercial business letter** is a [letter](http://en.wikipedia.org/wiki/Letter_(message)) written in formal language, usually used when writing from one business organization to another, or for correspondence between such organizations and their customers, clients and other external parties. The overall style of letter will depend on the relationship between the parties concerned. There are many reasons to write a business letter. It could be to request direct information or action from another party, to order supplies from a supplier, to identify a mistake that was committed, to reply directly to a request, to apologize for a wrong or simply to convey goodwill. Even today, the business letter is still very useful because it produces a permanent record, is confidential, formal and delivers persuasive, well-considered messages.[[1]](http://en.wikipedia.org/wiki/Business_letter#cite_note-0)

General Format

There are two main styles of business letters:

1. **Full block style**: Align all elements on the left margin.
2. **Modified block style with other elements on the left page margin.**

**Margins**

In general, left and right margins are one inch (approx. 2.5 cm).

For letters that are a full page or longer, top and bottom margins are likewise one inch (approx. 2.5 cm).

For letters shorter than a full page, the text is centered vertically so that the top and bottom margins match.

**Font Formatting**

No special character or font formatting is used, except for the subject line, which is usually underlined.

**Punctuation**

The [salutation](http://en.wikipedia.org/wiki/Salutation)/greeting is generally followed by a [comma](http://en.wikipedia.org/wiki/Comma), although in the United States a [colon](http://en.wikipedia.org/wiki/Colon_(punctuation)) is often preferred. The [valediction](http://en.wikipedia.org/wiki/Valediction)/closing is followed by a [comma](http://en.wikipedia.org/wiki/Comma).

Indentation Formats

Business letters conform to generally one of four indentation formats: Block, Semi-Block, Modified Block, and Modified Semi-Block. Put simply, "Semi-" means that the first lines of paragraphs are indented; "Modified" means that the sender's address, date, and closing are significantly indented.

**Block**

In a Block format letter, (1) all text is aligned to the left margin, (2) paragraphs are not indented. 3) paragraphs are separated by double or triple spacing.

**Semi-Block**

In a Semi-Block format letter (1) all text is aligned to the left margin, (2) paragraphs are indented.

**Modified Block**

In a Modified Block format letter, (1) all text is aligned to the left margin, except for the author's address, date, and closing; and (2) paragraphs are not indented. The author's address, date, and closing are usually indented three inches from the left margin, but can be set anywhere to the right of the middle of the page, as long as all three elements are indented to the same position.

**Modified Semi-Block**

In a Modified Semi-Block format letter, (1) all text is aligned to the left margin, except for the author's address, date, and closing; and (2) paragraphs are indented. The author's address, date, and closing are usually indented in same position

# Presentation

**Presentation** is the practice of showing and explaining the content of a topic to an audience or [learner](http://en.wikipedia.org/wiki/Learner). Presentations come in nearly as many forms as there are life situations. In the business world, there are sales presentations, informational and motivational presentations, first encounters, interviews, briefings, status reports, image-building, and of course, the inevitable training sessions.

Although individuals most often think of presentations in a business meeting context, there are countless occasions when that is not the case. For example, a Non Profit Organization presents the need for a capital fund-raising campaign to benefit the victims of a recent tragedy; a school district superintendent presents a program to parents about the introduction of foreign-language instruction in the elementary schools; an artist demonstrates decorative painting techniques to a group of interior designers; a horticulturist shows garden club members or homeowners how they might use native plants in the suburban landscape; a police officer addresses a neighborhood association about initiating a safety program.

Presentations can also be categorized as vocational and avocational. In addition, they are expository or persuasive. And they can be impromptu, extemporaneous, written, or memorized. When looking at presentations in the broadest terms, it's more important to focus on their purpose. There are three basic purposes for giving oral presentations:

1. To inform
2. To persuade
3. To build good will

## Definitions

* The process of offering for consideration or display
* A social introduction, as of a person at court
* A demonstration, lecture, or welcoming speech
* A manner or style of speaking, instructing, or putting oneself forward
* The manner of presenting, esp the organization of visual details to create an overall impression
* The formal introduction of a person, as into society or at court; debut

There are three types of presentations:- 1.Informative 2.Analyzing 3.Persuading

## Audience

There are far more types of audiences than there are types of presentations because audiences are made up of people and people come in innumerable flavors. Individuals could be invited to speak to groups all across the country. What the individual says and how they may say it depends on the makeup of those groups. They may ask you the individual to address a room full of factory operations managers who have no choice but to attend their talk, you they may go before a congressional committee looking into various environmental issues. When an individual stands up to deliver a presentation before an audience, its essential that the audience know who the presenter is, why they are there, what specifically they expect to get from your presentation, and how they will react to your message. You won’t always be able to determine these factors, but you should try to gather as much background information as possible before your presentation. There will be times, especially with presentations that are open to the public, when you will only be able to guess.

Audiences can be classified into *four* basic categories:

1. Captives
2. Pragmatists
3. Socially motivated
4. Committed

## Visuals

A study done by Wharton School Of Business showed that the use of visuals reduced meeting times by 28 percent. Another study found that audiences believe presenters who use visuals are more professional and credible than presenters who merely speak. And still other research indicates that meetings and presentations reinforced with visuals help participants reach decisions and consensus in less time.

A [presentation program](http://en.wikipedia.org/wiki/Presentation_program), such as [Microsoft PowerPoint](http://en.wikipedia.org/wiki/Microsoft_PowerPoint), [Apple Keynote](http://en.wikipedia.org/wiki/Keynote_(presentation_software)), [OpenOffice.org Impress](http://en.wikipedia.org/wiki/OpenOffice.org_Impress) or [Prezi](http://en.wikipedia.org/wiki/Prezi), is often used to generate the presentation content. Modern internet based presentation software, such as the presentation application in [Google Docs](http://en.wikipedia.org/wiki/Google_Docs) and [SlideRocket](http://en.wikipedia.org/wiki/SlideRocket) also allow presentations to be developed collaboratively by geographically disparate collaborators.

## External links

* [Ten Simple Rules for Good Presentations](http://scivee.tv/node/2903)
* [A Periodic Table of Visualization Methods](http://www.visual-literacy.org/periodic_table/periodic_table.html)
* [Portable Electronic Presentations (Pacific Northwest Research Station)](http://www.fs.fed.us/pnw/pep/)

# Nonverbal communication

**Nonverbal communication** is usually understood as the process of [communication](http://en.wikipedia.org/wiki/Communication) through sending and receiving wordless (mostly [visual](http://en.wikipedia.org/wiki/Visual)) messages between people. Messages can be communicated through [gestures](http://en.wikipedia.org/wiki/Gesture) and touch, by [body language](http://en.wikipedia.org/wiki/Body_language) or posture, by [facial expression](http://en.wikipedia.org/wiki/Facial_expression) and [eye contact](http://en.wikipedia.org/wiki/Eye_contact). Nonverbal messages could also be communicated through material exponential; meaning, objects or artifacts (such as clothing, hairstyles or [architecture](http://en.wikipedia.org/wiki/Architecture)). Speech contains nonverbal elements known as [paralanguage](http://en.wikipedia.org/wiki/Paralanguage), including [voice quality](http://en.wikipedia.org/wiki/Voice_quality), rate, pitch, [volume](http://en.wikipedia.org/wiki/Volume), and speaking style, as well [prosodic](http://en.wikipedia.org/wiki/Prosodic) features such as [rhythm](http://en.wikipedia.org/wiki/Rhythm), [intonation](http://en.wikipedia.org/wiki/Intonation_(linguistics)), and [stress](http://en.wikipedia.org/wiki/Stress_(linguistics)). Likewise, written texts have nonverbal elements such as handwriting style, spatial arrangement of words, or the physical layout of a page. However, much of the study of nonverbal communication has focused on face-to-face interaction, where it can be classified into three principal areas: [environmental](http://en.wikipedia.org/wiki/Social_environment) conditions where communication takes place, physical characteristics of the communicators, and behaviors of communicators during interaction.

## Importance

“Most social psychologists will tell you that nonverbal communication makes up about two-thirds of all communication between two people or between one speaker and a group of listeners.”[[1]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Hogan.2C_K._2003-0) Nonverbal communication can portray a message both verbally and with the correct body signals. “There are numerous elements of what we call body language. They include [physical features](http://en.wikipedia.org/wiki/Physical_features), both changeable and unchangeable, your [gestures](http://en.wikipedia.org/wiki/Gestures)and signals you send to others at a conscious and [unconscious](http://en.wikipedia.org/wiki/Unconscious_communication) level, and the space that you use when communicating with others.”[[1]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Hogan.2C_K._2003-0) The wrong message can be established if the body language conveyed does not match a verbal message. Nonverbal communication strengthens a first impression in common situations like attracting a partner or in a business interview. “You have less than ten seconds and realistically close to four seconds to make a good [impression](http://en.wikipedia.org/wiki/Impression_management) on those with whom you come in contact.”[[1]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Hogan.2C_K._2003-0) First encounters or interactions with another person strongly affect a person’s [lifestyle](http://en.wikipedia.org/wiki/Lifestyle_(sociology)). “People are more likely to believe that the first things they learn are the truth.”[[2]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-1) When the other person or group is absorbing the message they are focused on the entire [environment](http://en.wikipedia.org/wiki/Social_environment) around them, meaning, the other person uses all five senses in the [interaction](http://en.wikipedia.org/wiki/Interaction). “Sight makes up 83% of the impact on the brain of information from the senses during a visual presentation. Taste makes up 1%, Hearing makes up 11%, smell 3% and touch 2%.”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)

## Posture

Posture or a person's bodily stance communicates a variety of messages. Posture can be used to determine a participant’s degree of attention or involvement, the difference in status between communicators, and the level of fondness a person has for the other communicator, depending on body “openness”.[5] Studies investigating the impact of posture on interpersonal relationships suggest that mirror-image congruent postures, where one person’s left side is parallel to the other person’s right side, leads to favorable perception of communicators and positive [speech](http://en.wikipedia.org/wiki/Speech); a person who displays a forward lean or decreases a backward lean also signifies positive sentiment during communication.[6]  
  
There are many different types of posture. Some of these postures include: slouching, towering, legs spread, jaw thrust, shoulders forward, and arm crossing. These nonverbal behaviors can indicate feelings and [attitudes](http://en.wikipedia.org/wiki/Attitude_(psychology)) toward another person. An example of good posture includes standing erect, and leaning forward communicates to a person that you are approachable, receptive, and friendly. A person talking to someone that is constantly looking at the floor or ceiling makes it seem as though disinterest with the [conversation](http://en.wikipedia.org/wiki/Conversation). Always try to avoid negative posture. “Lean forward when listening, stand straight when speaking.”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)  
  
Posture can be situation-relative. “A nineteen-year-old college student from New York will use different postures than a Mid-western housewife, and a construction worker in the state of Washington will use different postures than a salesman in Chicago[[4]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-3) Another example of posture being situational on more of a daily basis can be described in Driver’s book: “Four situational norms of posture would be, Flirting, where the norm is 60% eye contact, Job Interview with a relaxed and open body language, Business Negotiation where the norm is leaning back while steeping and Buying a Car where most have hands on hips with feet more than ten inches apart.”[[5]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-4)

## Clothing

Clothing is the most common form of non-verbal communication. The types of clothing that an individual wears convey nonverbal clues about his or her personality, background and financial status, and how others will respond to them, for instance, “[Miniskirts](http://en.wikipedia.org/wiki/Miniskirts) can give a woman the appearance that she is not approachable.”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2) This demonstrates a certain response, in this case, a negative and unapproachable response, simply via [appearance](http://en.wikipedia.org/wiki/Human_physical_appearance). It is important to understand that their exterior and demeanor influence how others will react to them. An individual’s clothing style can demonstrate their [culture](http://en.wikipedia.org/wiki/Culture), [mood](http://en.wikipedia.org/wiki/Mood_(psychology)), level of confidence, interests, age, authority, value/beliefs, and their sexual identity. Some examples of a person’s clothing type in which a negative message is being conveyed could include the following: A person with a sloppy appearance, messy hair, and wrinkled clothes sends the message, "I don't care". Also, a woman who wears a tight dress with a low-cut neckline may convey the message "I'm attractive and sexy" or “Want to come back to my place tonight"? By showing the positive aspects of his or her self through dress attire and grooming, one can inspire confidence in his or her abilities.

A study,[2] carried out in [Vienna, Austria](http://en.wikipedia.org/wiki/Vienna,_Austria), of the clothing worn by women attending discothèques showed that in certain groups of women (especially women who were without their partners), motivation for [sex](http://en.wikipedia.org/wiki/Sex) and levels of sexual [hormones](http://en.wikipedia.org/wiki/Hormones) were correlated with aspects of their clothing, especially the amount of skin displayed and the presence of sheer clothing. Thus, to some degree, clothing sends signals about interest in [courtship](http://en.wikipedia.org/wiki/Courtship).

## Gestures

Gestures may be made with the [hands](http://en.wikipedia.org/wiki/Hands), arms or [body](http://en.wikipedia.org/wiki/Body), and also include movements of the head, [face](http://en.wikipedia.org/wiki/Face) and [eyes](http://en.wikipedia.org/wiki/Eyes), such as [winking](http://en.wikipedia.org/wiki/Winking), nodding, or rolling one's eyes. Although the study of gesture is still in its [infancy](http://en.wikipedia.org/wiki/Infancy), some broad categories of gestures have been identified by researchers. The most familiar are the so-called emblems or quotable gestures. These are conventional, culture-specific gestures that can be used as replacement for words, such as the hand wave used in western cultures for "hello" and "goodbye." A single emblematic gesture can have a very different significance in different cultural contexts, ranging from complimentary to highly offensive.[9] For a list of emblematic gestures, see [List of gestures](http://en.wikipedia.org/wiki/List_of_gestures). There are some universal gestures like the shoulder shrug. “The shoulder shrug is a good example of a universal gesture that is used to show that a person doesn’t know or doesn’t understand what you are saying. It’s a multiple gesture that has three main parts: exposed palms to show nothing is being concealed in the hands, hunched shoulders to protect the throat from attack, and raised brow, which is a universal, submissive greeting”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)  
  
Gestures can also be categorized as either speech independent or speech related. Speech-independent gestures are dependent upon culturally accepted interpretation and have a direct verbal[translation](http://en.wikipedia.org/wiki/Translation).[7] A wave or a [V-sign| peace sign] are examples of speech-independent gestures. Speech-related gestures are used in parallel with verbal speech; this form of nonverbal communication is used to emphasize the message that is being communicated. Speech-related gestures are intended to provide supplemental information to a verbal message such as pointing to an object of discussion.

Facial expressions, more than anything, serve as a practical means of communication. With all the various muscles that precisely control mouth, lips, eyes, nose, forehead,and jaw, human faces are estimated to be capable of more than ten thousand different expressions. This versatility makes non-verbals of the face extremely efficient and honest, unless deliberately manipulated. In addition, many of these emotions, including happiness, sadness, anger, fear, surprise, disgust, shame, anguish and interest are universally recognized.[[6]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-5)  
  
Displays of emotions can generally be categorized into two groups: negative and positive. Negative emotions usually manifest as increased tension in various muscle groups: tightening of jaw muscles, furrowing of forehead, squinting eyes, or lip occlusion (when the lips seemingly disappear). In contrast, positive emotions are revealed by the loosening of the furrowed lines on the forehead, relaxation of the muscles around the mouth, and widening of the eye area. When individuals are truly relaxed and at ease, the head will also tilt to the side, exposing our most vulnerable area, the neck. This is a high-comfort display, often seen during courtship that is nearly impossible to mimic when we are tense or suspicious.[[7]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-6)

## Engagement

Eye-contact is the primary notion to where a message of attention is being conveyed in engagement with Nonverbal communication. Eye contact is when two people look at each other's eyes at the same time; it can indicate interest, attention, and involvement. Studies have found that people use their eyes to indicate their interest and not just with the frequently recognized actions of [winking](http://en.wikipedia.org/wiki/Winking) and movements of the eyebrows, but it can indicate social [behavior](http://en.wikipedia.org/wiki/Behavior). Men and [women](http://en.wikipedia.org/wiki/Women) have different ways of eye contact. Men stare at the women they are interested in for at least a half an hour, whereas women tend to always keep their eyes roaming around the room to see who is there. Disinterest is highly noticeable when showing little eye-contact in a social setting. [Pupils](http://en.wikipedia.org/wiki/Pupils) dilate when they are interested in the other person. People, sometimes, even, without consciously doing so, probe each other's eyes and faces for positive or negative mood signs. Generally speaking, the longer the eye contact between two people the greater the [intimacy](http://en.wikipedia.org/wiki/Intimacy) is felt inside[[1]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Hogan.2C_K._2003-0) According to Eckman,“Eye contact (also called mutual gaze) is another major channel of nonverbal communication. The duration of eye contact is its most meaningful aspect.)[[8]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-7) Gaze comprises the actions of looking while talking and listening. The length of a gaze, the frequency of glances, patterns of fixation, pupil [dilation](http://en.wikipedia.org/wiki/Pupillary_dilation), and blink rate are all important cues in nonverbal communication.[10] “Liking generally increases as mutual gazing increases.” [8][[1]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Hogan.2C_K._2003-0) Along with the detection of disinterest, [deceit](http://en.wikipedia.org/wiki/Deceit) can also be observed in a person. Hogan states “when someone is being deceptive their eyes tend to blink a lot more. Eyes act as leading indicator of truth or deception,”[[1]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Hogan.2C_K._2003-0) Eye aversion is the avoidance of eye contact. Eye contact and facial expressions provide important social and emotional information. Overall, as Pease states, “Give the amount of eye contact that makes everyone feel comfortable. Unless looking at others is a cultural no-no, lookers gain more credibility than non-lookers”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)  
  
In concealing [deception](http://en.wikipedia.org/wiki/Deception), nonverbal communication makes it easier to lie without being revealed. This is the conclusion of a study where people watched made-up interviews of persons accused of having stolen a wallet. The interviewees lied in about 50% of the cases. People had access to either written transcript of the interviews, or audio tape recordings, or video recordings. The more clues that were available to those watching, the larger was the trend that interviewees who actually lied were judged to be truthful. That is, people that are clever at lying can use voice tone and face expression to give the impression that they are truthful.[15] However, there are many cited examples of cues to deceit,[16]delivered via nonverbal (Para verbal and visual) communication channels, through which deceivers supposedly unwittingly provide clues to their concealed knowledge or actual opinions. Most studies examining the nonverbal cues to deceit rely upon human coding of video footage (c.f. Vrij, 2008[17]), although a recent study also demonstrated bodily movement differences between truth-tellers and liars using an automated body motion capture system[18]  
  
Deceit also involves distress. One recent study set out to find how well people could communicate distress signals non-verbally. The research shows that you can identify certain social cues that can help you to predict that person's behavior. This is not always true though. The cues depend on the mindset of the person and cannot be predicted. The study was able to find 55 identifiable distress cues.[42]

## Genetics

“In the study of nonverbal communications, the limbic [brain](http://en.wikipedia.org/wiki/Brain) is where the action is…because it is the part of the brain that reacts to the world around us reflexively and instantaneously, in real time, and without thought.”[[9]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-8) Genetics is a harder field to study in dealing with Nonverbal Communication, but there is evidence that the nonverbal cues made from person-to-person do not entirely have something to do with [environment](http://en.wikipedia.org/wiki/Social_environment). “When you cross your arms on your chest, do you cross left over right or right over left? – Seven out of ten people cross their left arm over their right…Evidence suggests that this may well be a genetic gesture that cannot be changed.”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2) So how is it studied in an entirely environmentally free environment? “Evidence has been collected from observation of[blind](http://en.wikipedia.org/wiki/Blindness) people (who could not have learned nonverbal signals through a visual channel).”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)  
  
Other than gestures, phenotypic traits can also convey certain messages in nonverbal communication, for instance, eye color, hair color and height. Research into height has generally found that taller people are perceived as being more impressive. Melamed and Bozionelos (1992) studied a sample of managers in the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom) and found that height was a key factor in who was promoted. Height can have benefits and depressors too. “Being tall, however, is not always a bonus. While tall people often command more respect than short people, height can also be detrimental to some aspects of one-to-one communication, for instance, where you need to ‘talk on the same level’ or have an ‘eye-to-eye’ discussion with another person and do not want to be perceived as too big for your boots.”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)

## Proxemics: Physical Space in Communication

When you are talking to someone stay out of their “intimate space” they want to talk to you but just do not want to have you all over them. “ Most animals have a certain air space around their bodies that they claim as their personal space…1-18 in being the intimate zone, 18-48 in being the personal zone, 4-12 ft. being the social zone and the public zone at over 12 ft.”[[3]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Pease_B._2004-2)

[Proxemics](http://en.wikipedia.org/wiki/Proxemics) is the study of how people use and perceive the physical space around them. The space between the sender and the receiver of a message influences the way the message is interpreted. In addition, the perception and use of space varies significantly across cultures[[10]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-9) and different settings within cultures. Space in nonverbal communication may be divided into four main categories: intimate, social, personal, and public space.

The term territoriality is used in the study of proxemics to explain human behavior regarding personal space.[[11]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-10) Hargie& Dickson (2004, p. 69) identify 4 such territories:

1. Primary territory: This refers to an area that is associated with someone who has exclusive use of it. An example is a house that others cannot enter without the owner’s permission.
2. Secondary territory: Unlike primary territory, there is no “right” to occupancy of secondary territory, but people may still feel some degree of ownership of such space as they develop the custom of occupying it. For example, someone may sit in the same seat in church every week and feel irritated if someone else sits there.
3. Public territory: this refers to an area that is available to all, but only for a set period, such as a parking space or a seat in a library. Although people have only a limited claim over that space, they often extend that claim. For example, it was found that people take longer to leave a parking space when someone is waiting to take that space.
4. Interaction territory: this is space held by others when they are interacting. For example, when a group is talking to each other on a footpath, others will walk around the group rather than disturb their interaction territory.

## Movement and body position

### Kinesics

The term "[kinesics](http://en.wikipedia.org/wiki/Kinesics)" was first used (in 1952) by [Ray Birdwhistell](http://en.wikipedia.org/wiki/Ray_Birdwhistell), an anthropologist who wished to study how people communicate through posture, gesture, stance, and movement. Part of Birdwhistell's work involved making films of people in social situations and analyzing them to show different levels of communication not clearly seen otherwise. Several other anthropologists, including [Margaret Mead](http://en.wikipedia.org/wiki/Margaret_Mead) and [Gregory Bateson](http://en.wikipedia.org/wiki/Gregory_Bateson), also studied kinesics.

### Haptics: touching in communication

[Haptics](http://en.wikipedia.org/wiki/Haptic_communication) is the study of touching as nonverbal communication, and haptic communication refers to how people and other animals communicate via touching.

Touches among humans that can be defined as communication include [handshakes](http://en.wikipedia.org/wiki/Handshake), holding hands, kissing (cheek, lips, hand), back slapping, [high fives](http://en.wikipedia.org/wiki/High_five), a pat on the shoulder, and brushing an arm. Touching of oneself may include licking, picking, holding, and scratching.[[12]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Knapp_.26_Hall.2C_2007.2C_p._9-11) These behaviors are referred to as "adapters" or "tells" and may send messages that reveal the intentions or feelings of a communicator. The meaning conveyed from touch is highly dependent upon the culture, the context of the situation, the relationship between communicators, and the manner of touch.[[13]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Knapp_.26_Hall.2C_2007.2C_p.10-12)

Touch is an extremely important sense for humans; as well as providing information about surfaces and textures it is a component of nonverbal communication in interpersonal relationships, and vital in conveying physical intimacy. It can be both sexual (such as kissing) and platonic (such as hugging or tickling).

Touch is the earliest sense to develop in the fetus. The development of an infant's haptic senses and how it relates to the development of the other senses such as vision have been the target of much research. Human babies have been observed to have enormous difficulty surviving if they do not possess a sense of touch, even if they retain sight and hearing. Babies who can perceive through touch, even without sight and hearing, tend to fare much better. Touch can be thought of as a basic sense in that most life forms have a response to being touched, while only a subset have sight and hearing.

In chimpanzees the sense of touch is highly developed. As newborns they see and hear poorly but cling strongly to their mothers. Harry Harlow conducted a controversial study involving rhesus monkeys and observed that monkeys reared with a "terry cloth mother," a wire feeding apparatus wrapped in soft terry cloth that provided a level of tactile stimulation and comfort, were considerably more emotionally stable as adults than those with a mere wire mother.(Harlow,1958)

Touching is treated differently from one country to another and socially acceptable levels of touching vary from one culture to another (Remland, 2009). In Thai culture, for example, touching someone's head may be thought rude. Remland and Jones (1995) studied groups of people communicating and found that touching was rare among the English (8%), the French (5%) and the Dutch (4%) compared to Italians (14%) and Greeks (12.5%).[[14]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-13)

Striking, pushing, pulling, pinching, kicking, strangling and hand-to-hand fighting are forms of touch in the context of physical abuse. In a sentence like "I never touched him/her" or "Don't you dare touch him/her," the term touch may be meant as a euphemism for either physical abuse or sexual touching. To "touch oneself" is a euphemism for masturbation.

Stoeltje (2003) wrote about how Americans are "losing touch" with this important communication skill. During a study conducted by University of Miami School of Medicine, Touch Research Institutes, American children were said to be more aggressive than their French counterparts while playing at a playground. It was noted that French women touched their children more.

## Functions of nonverbal communication

Argyle (1970)[[15]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Argyle.2C_Michael_1970-14) put forward the hypothesis that whereas spoken language is normally used for communicating information about events external to the speakers, non-verbal codes are used to establish and maintain interpersonal relationships. It is considered more polite or nicer to communicate attitudes towards others non-verbally rather than verbally, for instance in order to avoid embarrassing situations.[[16]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-15)

Argyle (1988) concluded there are five primary functions of nonverbal bodily behavior in human communication:[[17]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-16)

* Express emotions
* Express interpersonal attitudes
* To accompany speech in managing the cues of interaction between speakers and listeners
* Self-presentation of one’s personality
* Rituals (greetings)

In regards to expressing interpersonal attitudes, humans communicate interpersonal closeness through a series of nonverbal actions known as immediacy behaviors. Examples of immediacy behaviors are smiling, touching, open body positions, and eye contact. Cultures that display these immediacy behaviors are considered high-contact cultures.

### Interaction of verbal and nonverbal communication

When communicating, nonverbal messages can interact with verbal messages in six ways: repeating, conflicting, complementing, substituting, regulating and accenting/moderating. Conflicting Verbal and nonverbal messages within the same interaction can sometimes send opposing or conflicting messages. A person verbally expressing a statement of truth while simultaneously fidgeting or avoiding eye contact may convey a mixed message to the receiver in the interaction. Conflicting messages may occur for a variety of reasons often stemming from feelings of uncertainty, ambivalence, or frustration.[23]When mixed messages occur, nonverbal communication becomes the primary tool people use to attain additional information to clarify the situation; great attention is placed on bodily movements and positioning when people perceive mixed messages during interactions

#### Complementing

Accurate interpretation of messages is made easier when nonverbal and verbal communication complements each other. Nonverbal cues can be used to elaborate on verbal messages to reinforce the information sent when trying to achieve communicative goals; messages have been shown to be remembered well when nonverbal signals affirm the verbal exchange.[[21]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-20)

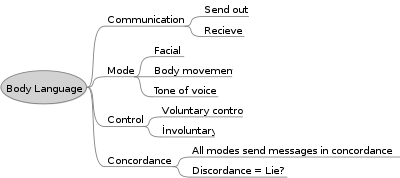
#### Substituting

Nonverbal behavior is sometimes used as the sole channel for communication of a message. People learn to identify facial expressions, body movements, and body positioning as corresponding with specific feelings and intentions. Nonverbal signals can be used without [verbal communication](http://en.wikipedia.org/wiki/Verbal_communication) to convey messages; when nonverbal behavior does not effectively communicate a message, verbal methods are used to enhance understanding.[[22]](http://en.wikipedia.org/wiki/Nonverbal_communication#cite_note-Knapp_.26_Hall.2C_2007.2C_p.16-21)

## Conclusion

Nonverbal communication is the process of sending and receiving messages from another person. These messages can be conveyed through [gestures](http://en.wikipedia.org/wiki/Gestures), [engagement](http://en.wikipedia.org/wiki/Engagement), [posture](http://en.wikipedia.org/wiki/Posture_(psychology)), and even [clothing](http://en.wikipedia.org/wiki/Clothing)and [hygiene](http://en.wikipedia.org/wiki/Hygiene). Nonverbal communication can convey a very different message than a verbal [conversation](http://en.wikipedia.org/wiki/Conversation). This can tell someone whether they are liked, interesting or hated. Nonverbal communication can have meanings in objects as well. Certain articles in a person’s life can say a lot about them and can sometimes even talk for them. A person’s [handwriting](http://en.wikipedia.org/wiki/Handwriting) can also tell a lot about the way they can communicate with others. Nonverbal communication can be easiest practiced when the two communicators are face to face. The nonverbal aspect of communication is easiest when the environment is right for all communicators involved, such as, when the [environment](http://en.wikipedia.org/wiki/Social_environment) is right or the moment is right. Nonverbal communication is an important aspect in any conversation skill people are practicing. Nonverbal communication will inhibit someone to be able to tell other person how they are really feeling without having to voice any opinions. People can interpret body signals better than they can talk most of the time.

# Body language

[](http://en.wikipedia.org/wiki/File:Body_Language.svg)**Body language** is a form of mental and physical ability of human [non-verbal communication](http://en.wikipedia.org/wiki/Non-verbal_communication), which consists of [body posture](http://en.wikipedia.org/wiki/Human_position), [gestures](http://en.wikipedia.org/wiki/Gesture), [facial expressions](http://en.wikipedia.org/wiki/Facial_expression), and [eye movements](http://en.wikipedia.org/wiki/Eye_movement_(sensory)). Humans send and interpret such signals almost entirely subconsciously.

James Borg states that human [communication](http://en.wikipedia.org/wiki/Communication) consists of 93 percent body language and [paralinguistic](http://en.wikipedia.org/wiki/Paralinguistic) cues, while only 7% of communication consists of words themselves;[[1]](http://en.wikipedia.org/wiki/Body_language#cite_note-0) however, [Albert Mehrabian](http://en.wikipedia.org/wiki/Albert_Mehrabian), the researcher whose 1960s work is the source of these statistics, has stated that this is a misunderstanding of the findings[[2]](http://en.wikipedia.org/wiki/Body_language#cite_note-1) (see [Misinterpretation of Mehrabian's rule](http://en.wikipedia.org/wiki/Albert_Mehrabian#Misinterpretation)). Others assert that "Research has suggested that between 60 and 70 percent of all meaning is derived from nonverbal behavior."[[3]](http://en.wikipedia.org/wiki/Body_language#cite_note-2)

Body language may provide clues as to the attitude or state of mind of a person. For example, it may indicate [aggression](http://en.wikipedia.org/wiki/Aggression),[attentiveness](http://en.wikipedia.org/wiki/Attention), [boredom](http://en.wikipedia.org/wiki/Boredom), relaxed state, [pleasure](http://en.wikipedia.org/wiki/Pleasure), [amusement](http://en.wikipedia.org/wiki/Amusement), and [intoxication](http://en.wikipedia.org/wiki/Substance_intoxication), among many other cues.

## Understanding body language

The technique of "reading" people is used frequently. For example, the idea of [mirroring](http://en.wikipedia.org/wiki/Mirroring_(psychology)) body language to put people at ease is commonly used in interviews. Body language can show feelings to other people, which works in return for other people. People who show their body language to you can reveal their feelings and meanings. Mirroring the body language of someone else indicates that they are understood.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] It is important to note that some indicators of emotion (e.g. smiling/laughing when happy, frowning/crying when sad) are largely universal;[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)],[[4]](http://en.wikipedia.org/wiki/Body_language#cite_note-3)however in the 1990s [Paul Ekman](http://en.wikipedia.org/wiki/Paul_Ekman) expanded his list of basic emotions, including a range of positive and negative emotions, not all of which are encoded in facial muscles.[11] The newly included emotions are:

1. Amusement
2. Contempt
3. Contentment
4. Embarrassment
5. Excitement
6. Guilt
7. Pride in achievement
8. Relief
9. Satisfaction
10. Sensory pleasure
11. Shame

Body language signals may have a goal other than communication. People would keep both these two in mind. Observers limit the weight they place on non-verbal cues. Signalers clarify their signals to indicate the biological origin of their actions. Verbal communication also requires body language to show that the person you are talking with that you are listening. These signals can consist of; eye contact and nodding your head to show you understand. More examples would include yawning (sleepiness), showing lack of interest (sexual interest/survival interest), attempts to change the topic (fight or flight drivers). [Rudolf Laban](http://en.wikipedia.org/wiki/Rudolf_Laban) and [Warren Lamb](http://en.wikipedia.org/wiki/Warren_Lamb) add much to this about dancers. [Mime artists](http://en.wikipedia.org/wiki/Mime_artist) such as [Booff Show](http://en.wikipedia.org/wiki/Booff_Show) utilize these techniques to communicate entire shows without a single word.

### Physical expression

Physical expressions like waving, pointing, touching and slouching are all forms of [nonverbal communication](http://en.wikipedia.org/wiki/Nonverbal_communication). The study of body movement and expression is known as [kinesics](http://en.wikipedia.org/wiki/Kinesics). Humans move their bodies when communicating because, as research has shown[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)], it helps "ease the mental effort when communication is difficult." Physical expressions reveal many things about the person using them. For example, gestures can emphasize a point or relay a message, posture can reveal boredom or great interest, and touch can convey encouragement or caution.[[5]](http://en.wikipedia.org/wiki/Body_language#cite_note-4)

* One of the most basic and powerful body-language signals is when a person **crosses his or her arms across the chest**.[[6]](http://en.wikipedia.org/wiki/Body_language#cite_note-5) This can indicate that a person is putting up an unconscious barrier between themselves and others. However, it can also indicate that the person's arms are cold, which would be clarified by rubbing the arms or huddling. When the overall situation is amicable, it can mean that a person is thinking deeply about what is being discussed, but in a serious or confrontational situation, it can mean that a person is expressing opposition. This is especially so if the person is leaning away from the speaker. A harsh or blank facial expression often indicates outright hostility.
* Consistent [eye contact](http://en.wikipedia.org/wiki/Eye_contact) can indicate that a person is thinking positively of what the speaker is saying. It can also mean that the other person doesn't trust the speaker enough to "take their eyes off" the speaker. Lack of eye contact can indicate negativity. On the other hand, individuals with [anxiety disorders](http://en.wikipedia.org/wiki/Anxiety_disorder) are often unable to make eye contact without discomfort. Eye contact can also be a secondary and misleading gesture because cultural norms about it are very widely. If a person is looking at you, but is making the arms-across-chest signal, the eye contact could be indicative that something is bothering the person, and that he wants to talk about it. Or if while making direct eye contact, a person is [fiddling](http://en.wiktionary.org/wiki/restlessness) with something, even while directly looking at you, it could indicate that the attention is elsewhere. Also, there are three standard areas that a person will look which represent different states of being. If the person looks from one eye to the other, then to the forehead, it is a sign that they are taking an authoritative position. If they move from one eye to the other, then to the nose, that signals that they are engaging in what they consider to be a "level conversation" with neither party holding superiority. The last case is from one eye to the other and then down to the lips. This is a strong indication of romantic feelings.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Disbelief is often indicated by averted gaze, or by touching the [ear](http://en.wikipedia.org/wiki/Ear) or [scratching](http://en.wikipedia.org/wiki/Itch) the [chin](http://en.wikipedia.org/wiki/Chin). When a person is not being convinced by what someone is saying, the [attention](http://en.wikipedia.org/wiki/Attention) invariably wanders, and the eyes will stare away for an extended period.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* [Boredom](http://en.wikipedia.org/wiki/Boredom) is indicated by the head tilting to one side, or by the eyes looking straight at the speaker but becoming slightly unfocused. A head tilt may also indicate a sore neck, trust or a feeling of safety (part of the neck becomes uncovered, hence vulnerable; It's virtually impossible to tilt our head in front of someone we don't trust or are scared of) or [Amblyopia](http://en.wikipedia.org/wiki/Amblyopia), and unfocused eyes may indicate ocular problems in the listener.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Interest can be indicated through posture or extended eye contact, such as standing and listening properly.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Deceit or the act of withholding information can sometimes be indicated by touching the face during conversation. Excessive blinking is a well-known indicator of someone who is lying. Recently[[*when?*](http://en.wikipedia.org/wiki/Wikipedia:Manual_of_Style_(dates_and_numbers)#Chronological_items)], evidence has surfaced that the absence of blinking can also represent lying as a more reliable factor than excessive blinking.[[7]](http://en.wikipedia.org/wiki/Body_language#cite_note-6)

Some people use and understand body language differently, or not at all.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Interpreting their gestures and facial expressions (or lack thereof) in the context of [normal](http://en.wikipedia.org/wiki/Neurotypical) body language usually leads to misunderstandings and misinterpretations (especially if body language is given priority over spoken language). It should also be stated that people from different [cultures](http://en.wikipedia.org/wiki/Cultures) can interpretate body language in different ways.

## How prevalent is non-verbal communication in humans?

Some researchers[[*who?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] put the level of nonverbal communication as high as 80 percent of all communication when it could be at around 50-65 percent. Different studies have found differing amounts, with some studies showing that facial communication is believed 4.3 times more often than verbal meaning, and another finding that verbal communication in a flat tone is 4 times more likely to be understood than a pure facial expression.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Albert Mehrabian is noted for finding a 7%-38%-55% rule, supposedly denoting how much communication was conferred by words, tone, and body language. However he was only referring to cases of expressing feelings or attitudes.

## Unintentional gestures

*See also:*[*Proteans (body language)*](http://en.wikipedia.org/wiki/Proteans_(body_language))

Recently[[*when?*](http://en.wikipedia.org/wiki/Wikipedia:Manual_of_Style_(dates_and_numbers)#Chronological_items)], there has been huge interest in studying human behavioral clues that could be useful for developing an interactive and adaptive human-machine system. Unintentional human gestures such as making an eye rub, a chin rest, a lip touch, a nose itch, a head scratch, an ear scratch, crossing arms, and a finger lock have been found conveying some useful information in specific context. Some researchers[[*who?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] have tried to extract such gestures in a specific context of educational applications.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] In [poker](http://en.wikipedia.org/wiki/Poker) games, such gestures are referred to as "[tells](http://en.wikipedia.org/wiki/Tell_(poker))" and are useful to players for detecting deception or behavioral patterns in an opponent(s).

There is also a huge interest in learning to avoid any unintentional gesture that might leave a negative impression on the onlookers. A large number of people are starting to attend special sessions on controlled body behaviour and take advice from expert sociologists. Learning good body language, such as living styles of foreign people, is important during interaction in any sort of global community.

# Group communication, team work and leadership

# Team

A **team** comprises a [group of people](http://en.wikipedia.org/wiki/Groups_of_people) or [animals](http://en.wikipedia.org/wiki/Animal) linked in a common purpose. Teams are especially appropriate for conducting tasks that are high in [complexity](http://en.wikipedia.org/wiki/Complexity) and have many interdependent subtasks.

A group in itself does not necessarily constitute a team. Teams normally have members with complementary skills and generate synergy through a coordinated effort which allows each member to maximize his/her strengths and minimize his/her weaknesses. Team members need to learn how to help one another, help other team members realize their true potential, and create an environment that allows everyone to go beyond their limitations.[[1]](http://en.wikipedia.org/wiki/Team#cite_note-0)

[Theorists](http://en.wikipedia.org/wiki/Theorist) in [business](http://en.wikipedia.org/wiki/Business) in the late 20th century popularised the concept of [constructing teams](http://en.wikipedia.org/wiki/Team_building). Differing opinions exist on the efficacy of this new [management](http://en.wikipedia.org/wiki/Management) [fad](http://en.wikipedia.org/wiki/Fad). Some see "team" as a [four-letter word](http://en.wikipedia.org/wiki/Four-letter_word): overused and under-useful. Others see it as a panacea that finally realizes the [human relations movement](http://en.wikipedia.org/wiki/Human_Relations_Movement)'s desire to integrate what that movement perceives as best for workers and as best for [managers](http://en.wikipedia.org/wiki/Management). Still others believe in the effectiveness of teams, but also see them as dangerous because of the potential for exploiting workers — in that team effectiveness can rely on [peer pressure](http://en.wikipedia.org/wiki/Peer_pressure) and peer [surveillance](http://en.wikipedia.org/wiki/Surveillance).

# Team size, composition, and formation

**Team size and composition** affect the team processes and outcomes. The optimal size (and composition) of teams is debated and will vary depending on the task at hand. At least one study of problem-solving in groups showed an optimal size of groups at four members. Other works estimate the optimal size between 5-12 members.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] [Belbin](http://en.wikipedia.org/wiki/Meredith_Belbin) did extensive research on teams prior to 1990 in the UK that clearly demonstrated that the optimum team size is 8 roles plus a specialist as needed.[[2]](http://en.wikipedia.org/wiki/Team#cite_note-1) Fewer than 5 members results in decreased perspectives and diminished creativity. Membership in excess of 12 results in increased conflict and greater potential of sub-groups forming.

[David Cooperrider](http://en.wikipedia.org/wiki/David_Cooperrider) suggests that the larger the group, the better. This is because a larger group is able to address concerns of the whole [system](http://en.wikipedia.org/wiki/System). So while a large team may be ineffective at performing a given task, Cooperider says that the relevance of that task should be considered, because determining whether the team is effective first requires identifying what needs to be accomplished.

Regarding composition, all teams will have an element of homogeneity and heterogeneity. The more homogeneous the group, the more cohesive it will be. The more heterogeneous the group, the greater the differences in perspective and increased potential for creativity, but also the greater potential for conflict.

Team members normally have different roles, like team leader and agents. Large teams can divide into sub-teams according to need.

Many teams go through a life-cycle of stages, identified by [Bruce Tuckman](http://en.wikipedia.org/wiki/Bruce_Tuckman) as: [forming, storming, norming, performing and adjourning](http://en.wikipedia.org/wiki/Forming-storming-norming-performing).

## Types of teams

### *Independent and interdependent teams*

Of particular importance is the [concept](http://en.wikipedia.org/wiki/Concept) of different types of teams. A distinction is usually drawn between "independent" and "interdependent" teams. To continue the [sports](http://en.wikipedia.org/wiki/Sports) team example, a [rugby](http://en.wikipedia.org/wiki/Rugby_football) team is clearly an **interdependent team**:

* no significant task can be accomplished without the help and cooperation of any of the [members](http://en.wikipedia.org/wiki/Groups_of_people);
* within that team members typically specialize in different tasks ([running the ball](http://en.wikipedia.org/wiki/Rugby_League_positions), [goal kicking](http://en.wikipedia.org/wiki/Field_goal_(rugby)) & [scrum feeding](http://en.wikipedia.org/wiki/Scrum_(rugby))), and
* the success of every individual is inextricably bound to the [success](http://en.wikipedia.org/wiki/Success) of the whole team. No [rugby](http://en.wikipedia.org/wiki/Rugby_football) player, no matter how talented, has ever won a[game](http://en.wikipedia.org/wiki/Rugby_football) by playing alone.
* On the other hand, a [chess](http://en.wikipedia.org/wiki/Chess) or [bowling](http://en.wikipedia.org/wiki/Bowling) team is a classic example of an **independent team**:
* matches are played and won, or points are scored, by individuals or partners;
* every person performs basically the same actions;
* how one player performs has no direct effect on the performance of the next player. If all team members each perform the same basic tasks, such as[students](http://en.wikipedia.org/wiki/Students) working problems in a math class, or outside sales [employees](http://en.wikipedia.org/wiki/Employees) making phone calls, then it is likely that this team is an independent team. They may be able to help each other — perhaps by offering advice or practice time, by providing moral support, or by helping in the background during a busy time — but each individual's success is primarily due to each individual's own efforts. Chess players do not win their own matches merely because the rest of their teammates did, and math students do not pass tests merely because their neighbours know how to solve the [equations](http://en.wikipedia.org/wiki/Equations).

Coaching an "interdependent" team like a [football](http://en.wikipedia.org/wiki/Football) team necessarily requires a different approach from coaching an "independent" team because the costs and benefits to individual team members — and therefore the intrinsic incentives for positive team behaviors — are very different. An interdependent team benefits from getting to know the other team members socially, from developing trust in each other, and from conquering artificial challenges (such as offered in outdoors ropes courses).

### Project teams

A team used only for a [defined](http://en.wikipedia.org/wiki/Define) period of time and for a separate, concretely definable purpose, often becomes known as a [**project team**](http://en.wikipedia.org/wiki/Project_team). Managers commonly label groups of people as a "team" based on having a common function. Members of these teams might belong to different groups, but receive assignment to activities for the same [project](http://en.wikipedia.org/wiki/Project), thereby allowing outsiders to view them as a single unit. In this way, setting up a team allegedly facilitates the creation, tracking and assignment of a group of people based on the project in hand. The use of the "team" label in this instance often has no relationship to whether the employees are working as a team.

### Virtual teams

Developments in communications technologies have seen the emergence of the virtual work team. A [virtual team](http://en.wikipedia.org/wiki/Virtual_team) is a group of people who work interdependently and with shared purpose across space, time, and organisation boundaries using technology to communicate and collaborate. Virtual team members can be located across a country or across the world, rarely meet face-to-face, and include members from different cultures.[[3]](http://en.wikipedia.org/wiki/Team#cite_note-2) Ale Ebrahim, N., Ahmed, S. &Taha, Z. in their recent (2009) literature review paper, added two key issues to definition of a [virtual team](http://en.wikipedia.org/wiki/Virtual_team) “as **small temporary groups** of geographically, organizationally and/ or time dispersed **knowledge workers** who coordinate their work predominantly with electronic information and communication technologies in order to accomplish one or more organization tasks”.[[4]](http://en.wikipedia.org/wiki/Team#cite_note-3) Many virtual teams are cross-functional and emphasis solving customer problems or generating new work processes. The United States Labour Department reported that in 2001, 19 million people worked from home online or from another location, and that by the end of 2002, over 100 million people world-wide would be working outside traditional offices.[[5]](http://en.wikipedia.org/wiki/Team#cite_note-4)

### Interdisciplinary and multidisciplinary teams

Teams, such as in medical fields, may be *interdisciplinary* or *multidisciplinary*.[[6]](http://en.wikipedia.org/wiki/Team#cite_note-Ferrell-5) Multidisciplinary teams involve several professionals who independently treat various issues a patient may have, focusing on the issues in which they specialise. The problems that are being treated may or may not relate to other issues being addressed by individual team members. Interdisciplinary team approach involves all members of the team working together towards the same goal. In an interdisciplinary team approach, there can often be role blending by members of the core team, who may take on tasks usually filled by other team members.[[6]](http://en.wikipedia.org/wiki/Team#cite_note-Ferrell-5)

### Not all groups are teams

Some people also use the word "team" when they mean "employees." A "[sales](http://en.wikipedia.org/wiki/Sales) team" is a common example of this loose or perhaps [euphemistic](http://en.wikipedia.org/wiki/Euphemistic) usage, though inter dependencies exist in[organisations](http://en.wikipedia.org/wiki/Organisations), and a sales team can be let down by poor performance on other parts of the organisation upon which sales depend, like delivery, after-sales service, etc.. However "sales staff" is a more precise description of the typical arrangement.

### From groups to teams

Groups develop into teams in four stages. The four stages are: dependency and inclusion, counter dependency and fighting, trust and structure, and work. In the first stage, group development is characterized by members' dependency on the designated leader. In the second stage, the group seeks to free itself from its dependence on the leader and groups have conflicts about goals and procedures. In the third stage, the group manages to work through the conflicts. And in the last stage, groups focus on team productivity.[[7]](http://en.wikipedia.org/wiki/Team#cite_note-6)

# Teamwork

**Teamwork** has been defined in the [Merriam-Webster](http://en.wikipedia.org/wiki/Merriam-Webster) dictionary as "work done by several associates with each doing a part but all subordinating personal prominence to the efficiency of the whole."[[1]](http://en.wikipedia.org/wiki/Teamwork#cite_note-0) However, there is no universally-accepted definition of "teamwork" in the academic literature.

In a business setting [accounting](http://en.wikipedia.org/wiki/Accounting) techniques may be used to provide [financial measures](http://en.wikipedia.org/wiki/Financial_measures) of the benefits of teamwork which are useful for justifying the concept.[[2]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Ezzamel1998-1) Teamwork is increasingly advocated by health care policy makers as a means of assuring quality and safety in the delivery of services; a committee of the [Institute of Medicine](http://en.wikipedia.org/wiki/Institute_of_Medicine) recommended in 2000 that [patient safety](http://en.wikipedia.org/wiki/Patient_safety)programs "establish interdisciplinary team training programs for providers that incorporate proven methods of team training, such as simulation."[[3]](http://en.wikipedia.org/wiki/Teamwork#cite_note-2)

## Definitions in academic literature

In [health care](http://en.wikipedia.org/wiki/Health_care), one definition of teamwork is "those behaviours that facilitate effective team member interaction," with "[team](http://en.wikipedia.org/wiki/Team)" defined as "a group of two or more individuals who perform some work related task, interact with one another dynamically, have a shared past, have a foreseeable shared future, and share a common fate."[[4]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Beaubien2004-3) One definition for teamwork proposed in 2008 is "the interdependent components of performance required to effectively coordinate the performance of multiple individuals"; as such, teamwork is "nested within" the broader concept of team performance which also includes individual-level taskwork.[[5]](http://en.wikipedia.org/wiki/Teamwork#cite_note-SalasCookeRosen2008-4) Another definition proposed in 2008 is "a dynamic process involving two or more healthcare professionals with complementary backgrounds and skills, sharing common health goals and exercising concerted physical and mental effort in assessing, planning, or evaluating patient care."[[6]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Xyrichis2008-5) On the other hand, a 2012 review of the academic literature found that "there is no one unifying theory of exact dimensions of teamwork" and that the word "teamwork" has been used "as a catchall to refer to a number of behavioral processes and emergent states."[[7]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Valentine2012-6)

## Teamwork processes

Researchers have identified 10 teamwork processes that fall into three categories:[[8]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Marks2001-7)[[9]](http://en.wikipedia.org/wiki/Teamwork#cite_note-LePine2008-8)

* Transition processes (between periods of action)
* Mission analysis
* Goal specification
* Strategy formulation
* Action processes (when the team attempts to accomplish its goals and objectives)
* Monitoring progress toward goals
* Systems monitoring
* Team monitoring and backup behavior
* Coordination
* Interpersonal processes (present in both action periods and transition periods)
* Conflict management
* Motivation and confidence building
* Affect management

## Training to improve teamwork

As summarized in a 2008 review, "team training promotes teamwork and enhances team performance."[[5]](http://en.wikipedia.org/wiki/Teamwork#cite_note-SalasCookeRosen2008-4) In specific, a 2008 [meta-analysis](http://en.wikipedia.org/wiki/Meta-analysis) of 45 published and unpublished studies concluded that team training is "useful for improving cognitive outcomes, affective outcomes, teamwork processes, and performance outcomes."[[10]](http://en.wikipedia.org/wiki/Teamwork#cite_note-SalasDiazGranadosEtAl2008-9)

## Advantages and disadvantages of teamwork

### Advantages

* Teamwork can lead to better decisions, products, or services. The quality of teamwork may be measured by analyzing the following six components of [collaboration](http://en.wikipedia.org/wiki/Collaboration) among team members: communication, coordination, balance of member contributions, mutual support, effort, and cohesion.[[11]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Hoegl2001-10) In one study, teamwork quality as measured in this manner correlated with team performance in the areas of effectiveness (i.e., producing high quality work) and efficiency (i.e., meeting schedules and budgets).[[11]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Hoegl2001-10) A 2008 [meta-analysis](http://en.wikipedia.org/wiki/Meta-analysis) also found a relationship between teamwork and team effectiveness.[[9]](http://en.wikipedia.org/wiki/Teamwork#cite_note-LePine2008-8)
* Team members’ ratings of their satisfaction with a team are correlated with the level of teamwork processes present.[[9]](http://en.wikipedia.org/wiki/Teamwork#cite_note-LePine2008-8)
* In healthcare, teamwork is associated with increased [patient safety](http://en.wikipedia.org/wiki/Patient_safety).[[12]](http://en.wikipedia.org/wiki/Teamwork#cite_note-11)

### Disadvantages

* Teamwork may have an "unintended effect of fermenting hostility toward the managerial goal of making the teams fully self-managing."[[2]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Ezzamel1998-1) In one case study of a [clothing](http://en.wikipedia.org/wiki/Clothing) manufacturer, a switch from [production line](http://en.wikipedia.org/wiki/Production_line) work (with bonuses given for individual performance) to teamwork (in which an individual's earnings depended on team performance) caused workers to resent having to monitor each other.[[2]](http://en.wikipedia.org/wiki/Teamwork#cite_note-Ezzamel1998-1)
* There is a potential of "social loafing" (i.e., an individual's doing less work in a team than what he/she would normally do working individually).[[13]](http://en.wikipedia.org/wiki/Teamwork#cite_note-McShane2010-12) In order to minimize social loafing, management can make individual performance more visible while in a team setting. This can be done by forming smaller teams, specializing specific tasks to certain individuals, and measuring individual performance. Social loafing can also be reduced by increasing employee motivation, by selecting employees who have previously shown themselves to be motivated, and increasing job enrichment.[[13]](http://en.wikipedia.org/wiki/Teamwork#cite_note-McShane2010-12) In experiments conducted in the 1990s, an increase in [group cohesiveness](http://en.wikipedia.org/wiki/Group_cohesiveness) appeared to decrease social loafing.[[14]](http://en.wikipedia.org/wiki/Teamwork#cite_note-KarauWilliams1997-13)[[15]](http://en.wikipedia.org/wiki/Teamwork#cite_note-KarauHart1998-14)

# Team building

**Team building** is a philosophy of job design in which employees are viewed as members of interdependent teams instead of as individual workers.[[1]](http://en.wikipedia.org/wiki/Team_building#cite_note-0) Team building refers to a wide range of activities, presented to businesses, schools, sports teams, religious or nonprofit organizations designed for improving team [performance](http://en.wikipedia.org/wiki/Performance). Team building is pursued via a variety of practices, and can range from simple [bonding](http://en.wikipedia.org/wiki/Human_bonding) exercises to complex simulations and multi-day team building retreats designed to develop a team (including group assessment and [group-dynamic games](http://en.wikipedia.org/wiki/Group-dynamic_games)), usually falling somewhere in between. It generally sits within the theory and practice of [organizational development](http://en.wikipedia.org/wiki/Organizational_development), but can also be applied to [sports teams](http://en.wikipedia.org/wiki/Sports_team), school groups, and other contexts. Team building is not to be confused with "team recreation" that consists of activities for teams that are strictly recreational. Team building can also be seen in day-to-day operations of an organization and team dynamic can be improved through successful leadership. Team building is an important factor in any environment, its focus is to specialize in bringing out the best in a team to ensure self development, positive communication, leadership skills and the ability to work closely together as a team to problem solve.[[2]](http://en.wikipedia.org/wiki/Team_building#cite_note-1)

Work environments tend to focus on individuals and personal goals, with reward & recognition singling out the achievements of individual employees.[[3]](http://en.wikipedia.org/wiki/Team_building#cite_note-2) Team building can also refer to the process of selecting or creating a team from scratch.

Team dynamic

When assembling a team it is important to consider the overall dynamic of the team. According to Frank LaFasto, when building a team, five dynamics are fundamental to team success:[[4]](http://en.wikipedia.org/wiki/Team_building#cite_note-3)

1. **The team member**: Successful teams are made up of a collection of effective individuals. These are people who are experienced, have problem solving ability, openness to addressing the problem, action oriented.
2. **Team relationships**: For a team to be successful the members of the team must be able to give and receive feedback.
3. **Team problem solving**: An effective team depends on how focused and clear the goal of the team is. A relaxed, comfortable and accepting environment and finally, open and honest communication.
4. **Team leadership**: Effective team leadership depends on leadership competencies. A competent leader is: focused on the goal, ensures a collaborative climate, builds confidence of team members, sets priorities, demonstrates sufficient “know-how” and manage performance through feedback.
5. **Organizational environment**: The climate and culture of the organization must be conductive to team behavior.

Goals

The overall goals of team building are to increase the teams understanding of team dynamics and improve how the team works together. Unlike working as a group, working as a team incorporates group accountability rather than individual accountability and results in a collective work product.[[5]](http://en.wikipedia.org/wiki/Team_building#cite_note-4) Team building encourages the team approach to working on a project. There are many advantages to this approach. These advantages include the following:

* Increased flexibility in skills and abilities
* More productive than work groups with individual mindset
* More beneficial in times of organizational change
* Encourage both individual and team development and improvement
* Focuses on group goals to accomplish more beneficial tasks

Leadership roles

Successful team leaders frequently contain six of the same leadership abilities:[[6]](http://en.wikipedia.org/wiki/Team_building#cite_note-5)

1. A team leader is usually goal-oriented to keep the team on track.
2. They must promote a safe environment where members can openly discuss issues.
3. A leader must build confidence amongst members by building and maintaining trust and offering the members responsibilities.
4. A leader should be technically competent in matters relating to team tasks and goals.
5. It is important for a team leader to set a manageable list of priorities for the team to keep members focused.
6. Finally, leaders should offer clear performance expectations by recognizing and rewarding excellent performance, and provide feedback to others.

Carl Larson and Frank LaFasto conducted a three year study of over 75 diverse teams. By interviewing key members of each team, Larson &LaFasto identified eight effective strategies a leader should employ to enhance team building:

1. Establish clear and inspiring team goals
2. Maintain a results-oriented team structure
3. Assemble competent team members
4. Strive for unified commitment
5. Provide a collaborative climate
6. Encourage standards of excellence
7. Furnish external support and recognition
8. Apply principled leadership

Types of exercises

Team building exercises consist of a variety of tasks designed to develop group members and their ability to work together effectively. There are many types of team building activities that range from games for kids to games and challenges that involve novel and complex tasks that are designed for improving group performance by addressing specific needs.

Team building can range from simple social activities - to encourage team members to spend time together- to team development activities -designed to help individuals discover how they approach a problem, how the team works together, and discover better methods of communication.

Team interaction involves "soft" [interpersonal skills](http://en.wikipedia.org/wiki/Interpersonal_skills) including communication, negotiation, leadership, and motivation - in contrast to technical skills directly involved with the job at hand. Depending on the type of team building, the novel tasks can encourage or specifically teach interpersonal team skills to increase team performance.

Whether indoor or outdoor, the purpose of team building exercises is to assist teams in becoming cohesive units of individuals that can effectively work together to complete tasks.

*Communication exercise:* This type of team building exercise is exactly what it sounds like. Communications exercises are problem solving activities that are geared towards improving communication skills. The issues teams encounter in these exercises are solved by communicating effectively with each other.

* Goal: Create an activity which highlights the importance of good communication in team performance and/or potential problems with communication.

*Problem-solving/decision-making exercise:* Problem-solving/decision-making exercises focus specifically on groups working together to solve difficult problems or make complex decisions. These exercises are some of the most common as they appear to have the most direct link to what employers want their teams to be able to do.

* Goal: Give team a problem in which the solution is not easily apparent or requires the team to come up with a creative solution

*Planning/adaptability exercise:* These exercises focus on aspects of planning and being adaptable to change. These are important things for teams to be able to do when they are assigned complex tasks or decisions.

* Goal: Show the importance of planning before implementing a solution

*Trust exercise:* A trust exercise involves engaging team members in a way that will induce trust between them. They are sometimes difficult exercises to implement as there are varying degrees of trust between individuals and varying degrees of individual comfort trusting others in general.

* Goal: Create trust between team members

Assessment and feedback

In the [organizational development](http://en.wikipedia.org/wiki/Organizational_development) context, a team may embark on a process of [self-assessment](http://en.wikipedia.org/wiki/Self-assessment) to gauge its effectiveness and improve its performance. To assess itself, a team seeks [feedback](http://en.wikipedia.org/wiki/Feedback)from group members to find out both its current strengths and weakness.

To improve its current performance, feedback from the team assessment can be used to identify gaps between the desired state and the current state, and to design a gap-closure strategy. Team development can be the greater term containing this assessment and improvement actions, or as a component of organizational development.

Another way is to allow for personality assessment amongst the team members, so that they will have a better understanding of their working style, as well as their fellow team mates.

A structured team building plan is a good tool to implement team bonding and thus, team awareness. These may be introduced by companies that specialize in executing team building sessions, or done internally by the human resource department.

Risks

The major risk of team building is the team member may become cynical of the organization. This could happen as a result of the organization holding team building events outside of the normal context in which the organization usually functions under. For example, if an organization hosts team building events when individual goals and efforts are the norm with the organizational culture, the team building event will have no lasting impact.

It is crucial to follow up a team building event with meaningful workplace practice. If the team members do not see an improvement within an organization as a result of team building events, members may view such events as a waste of time. This may lead to loss of trust in the organization, harm motivation, as well as decrease employee morale and production.[[7]](http://en.wikipedia.org/wiki/Team_building#cite_note-Team-building_risks-6)

## Team composition

Team composition can be defined as the aspect of a team created by the configuration of team member attributes (Bell, 2007). It also has been identified as a causal factor that affects other aspects of a team (Moreland & Levine, 1992). The composition of a team is considered to have a strong influence on team processes and outcomes (Bell, 2007).

Team composition can either be homogeneous, all the same, or heterogeneous, containing differences. There are conflicting opinions on which is best. Homogeneous teams may perform better due to similarities in experience and thought, while heterogeneous teams may perform better due to diversity and greater ability to take on multiple roles (Mello &Ruckes, 2006). These terms, however, must be given a framework, as a team could be homogeneous for some characteristics and heterogeneous for others. The importance placed on team design derives from the need to align a team’s composition with organizational goals and resources. (Koslowski&Ilgen, 2006).

Team composition is a complex issue with an endless number and combination of elements contributing to each team configuration. The possible outcomes resulting from a team’s composition are as numerous.

## Antecedents of team composition

### Size

The preferred team size influences team composition (Moreland & Levine, 1992). Team size is determined by organizational task types, goals, and processes.

While the size of a team is clearly dependent on many factors, the concept of “ideal” team size also varies. Traditionally, it was perceived that increasing the size of a team had more powerful effects on team structure, dynamics, and performance (Thomas & Fink, 1963) because increased size generally translates into a wide range of member abilities and skills (Mathieu, Maynard, Rapp, & Gilson, 2008; Moreland & Levine, 1992).

Recently, however, some researchers have identified a general preference for a small team, containing less than 10 members (Katzenbach& Smith, 1993; Moreland, Levine, &Wingert, 1996). Smaller teams experience better work-life quality (Campion et al., 1993; Hausknecht et al., 2009) and work outcomes (Aube et al., 2011). Smaller teams also may experience less conflict, stronger communication, and more cohesion (Moreland & Levine, 1992; Mathieu et al., 2008). Regardless of the chosen ”ideal” size, organizational preference of team size determines team composition and its effects (Mathieu et al., 2008).

### Team structure

Team structure can be seen as a “bridge between organization-level strategy and staffing decisions” (Hollenbeck et al., 2002, p. 600). Team structure is an essential element in establishing guidance for team composition. It is helpful to consider the desired composition of the team when deciding which type of structure will be used to unite team members.

**Functional structure**

Functional structure is present when members within a team are organized around performing similar tasks (Mathieu et al., 2008).

**Divisional structure**

Divisional structure is present when members within a team are organized based on the similar organizational area (i.e. working on the same, specific product) in which they have responsibility (Mathieu et al., 2008).

### Leadership structure

Teams generally have a leader (Mello &Ruckes, 2006). [Leadership](http://en.wikipedia.org/wiki/Leadership) within a team has been shown to impact the outcome of team processes (Koslowski&Ilgen, 2006) such as team member selection. A standard leadership structure for teams involves a hierarchical leadership structure where there are leaders and subordinates.

**Top Management Teams**

An alternative leadership structure is when the team itself is composed of individuals who hold top management positions. Top Management Teams (TMTs) consists of an organization’s administrative members, in the upper echelons of the organization. New venture groups (i.e. technology start-ups), are commonly known for embracing the TMT model. TMT members are often selected by founders of organizations and have origins from sources with which the founders share network ties; thus, the level of homogeneity in these groups is often high (Ensley &Hmieleski, 2005). The similarity among TMT members could influence decisions regarding the composition of teams they create within the organization, as characteristics of TMT’s have been shown to strongly align with organizational outcomes because of their administrative powers (Mathieu et al., 2008).

## Outcomes of team composition

### Demographic traits

Diversity of age, gender, and race are considered to be the most important demographic factors resulting from team composition (Moreland & Levine, 1992).

Age is more than just number to team composition: as tenure with an organization and age increase, so can performances (Avolio, 1986; Ng & Feldman, 2008). Older individuals may contribute more professional expertise, years of experience, and gathered knowledge (Hess &Auman, 2001; Ng & Feldman, 2008).

Gender is another important factor of demographic team composition (Moreland & Levine, 1992). Men and women differ in their levels of conformity, preference of power distribution, and behavioral norms. These differences influence team behavior, climate, leadership, and norms (Wood & Rhodes, 1992; Moreland & Levine, 1992).

Race is a third demographic factor of team composition and has gained additional salience due to the globalization and increasing diversity of the workforce (Riordan & Shore, 1997). Traditionally, researchers have focused primarily on Whites and African Americans for race studies. That scope has more recently been extended to other races, such as Asians, Native Americans, Middle Easterners, and Hispanics.

Differences in ability, culture, and personalities among races have been shown to impact job-related outcomes (Harrison & Klein, 2007). The level of individual similarity and dissimilarity in racial attributes affect work-related processes (Riordan & Shore, 1997; Tsui& O’Reilly, 1989).

### Knowledge, skills, and abilities (KSAs)

The team composition determines the array of knowledge, skills, and abilities within a team.

Knowledge includes the facts and principles that apply to the domain of the team (The O\*Net Content Model, n.d.).

Skills can be either basic or cross-functional. Basic skills include developed capabilities that assist in the learning or faster acquisition of knowledge. Cross-functional skills assist in the ability to carry out tasks that occur across jobs. Skills can also be categorized into technical skills (adequate ability to do a variety of jobs), human skills (the ability to interact with others), and conceptual skills (the ability to learn and use newly acquired knowledge). (The O\*Net Content Model, n.d.)

Abilities are long-lasting individual traits that impact performance (The O\*Net Content Model, n.d.). Abilities can include multiple dimensions ranging from scope (general vs. specific) to origin (innate vs. learned) to focus (task vs. social) (Moreland et al., 1996).

Researchers have focused on different abilities, varying on dimensions such as scope (general vs. specific), origin (innate vs. learned), and focus (task vs. social). They found that individual abilities combine additively to determine team performance (Moreland & Levine, 1992), and "if members collectively lack necessary knowledge, skills, abilities, or resources to resolve the team task, the team cannot be effective,” (Koslowski&Ilgen, 2006, p. 80).

### Experience – tenure

A member’s expertise and industry experience also contribute to the composition of the team (Ensley &Hmieleski, 2005). Job experience can be characterized by job knowledge, backgrounds, and patterns of behavior. (Schmidt, Hunter, &Outerbridge, 1986) Experience, overall, has been shown to have direct and indirect effects on performance (Schmidt & Hunter, 1998).

### Personality

Since the early 1990’s, researchers have considered the effects of individual personality traits on team dynamics and performance to be an important team factor (Moreland & Levine, 1992). The[Big Five](http://en.wikipedia.org/wiki/Five_factor_model) personality traits include [extraversion](http://en.wikipedia.org/wiki/Extraversion), [conscientiousness](http://en.wikipedia.org/wiki/Conscientiousness), [agreeableness](http://en.wikipedia.org/wiki/Agreeableness), [openness to experience](http://en.wikipedia.org/wiki/Openness_to_experience), and [neuroticism](http://en.wikipedia.org/wiki/Neuroticism) (also referred to as emotional stability).

It is evident that individual personality traits affect the team’s processes and outcomes (Barrick, Stewart, Neubert, & Mount, 1998; Bell, 2007; Bradley & Herbert, 1997). Empirical support has shown the following: the presence of extraversion in team members leads to increased team viability and communication; the presence of conscientiousness leads to an increase in overall performance; the presence of agreeableness in team members leads to an increase in cohesion, communication, productivity, and overall performance; the presence of openness to experience in team members leads to an increase in communication; the presence of neuroticism in team members leads to an increase in cohesion and overall performance (Mathieu et al., 2008).

### Faultlines

A faultline is an imaginary line that divides a heterogeneous team into homogenous sub-teams. For example, a mixed team of men and women would have an imaginary split between the two genders. When a team is in its initial stages of forming, members may use demographic traits, such as gender, to place themselves into a sub-team (Lau &Murnighan, 1998).

Similar to faults, or breaks, in the earth’s crust, faultlines often need to be activated by external forces (i.e. task demands) in order to shake things up, or, cause an “earthquake.” When this happens, team members split along faultlines to form sub-teams. Individuals begin to create more interpersonal connections within the sub-team than with the team as a whole (Lau &Murnighan, 2005). In severe cases, the members of a sub-team may feel like the split is irreconcilable and break away completely from the team or organization (Dyck& Starke, 1999).

### Context

The composition of a team creates a context--conditions that surround and influence the team--for individual team members’ actions as well as teamwork and performance (Moreland & Levine, 1992).

For example, high levels of diversity in the team roles (such as coordinator and implementer) held by members have been shown to better help teams successfully complete complex tasks (Higgs, Plewnia, &Ploch, 2005). This does not mean, however, that high levels of diversity always enhances actions, teamwork, or performance. For example, the chosen attribute could be disagreeableness, where high levels could lead to decreased sharing of ideas by team members, lower amounts of teamwork (such as less communication), and poorer performance.

In addition to highs and lows in diversity, the ideal composition of a team may also exist at a moderate level. For example, using extraversion as the chosen attribute, a team with a high or low number of extraverts does not perform as well as a team with a moderate (around a third of the members) number of extraverts (Barry & Stewart, 1997). In all of these scenarios, the team composition, in terms of a chosen attribute, affect the team differently at different levels.

### Climate

Climate is most commonly thought of as the typical way that members in the organization describe their team or organization (Chan, 1998). Team composition creates climate, and team climate moderates the relationship between individual perception of an organization and organizational outcomes such as performance and satisfaction (Schneider, Salvaggio, and Subirats, 2002).

Although climate is influenced by individuals’ attributes, it is manifested at the organizational or team level (Schneider et al., 2002). Generally, climate encompasses the work environment, acting as a continuous factor that influences team composition and team performance. When individuals in the workplace create a positive climate, job satisfaction and job performance increase (Wiley and Brooks, 2000; Schneider et al., 2002). As a moderator, team climate influences the relationship between team composition and team performance.

## Ways to measure team composition

There are a variety of ways in which team composition can be operationalized, or turned into a measurable team characteristic. The common element of the methodologies involves first measuring characteristics of individual team members.

### Maximum and minimum scores

Maximum and minimum characteristic scores are considered most important when one team member having or lacking a characteristic will significantly impact the team’s performance. For example, a very disagreeable team member may obstruct a team’s ability to agree and cause poorer performance (Bell, 2007).

### Mean score

A team score for a particular characteristic can also be measured by taking the average, or mean, of all team member scores. Using this method, the amount of each trait for individual members is combined to form a group-level measurement of that trait. For example, cohesion, a characteristic sensibly measured using a team score due to its synergistic nature, could be measured this way. This would be accomplished by providing team members with a survey for them to assess cohesive traits (i.e. cooperation, harmony) and then calculating the average of the survey scores (Barrick, et al., 1998).

### Variability

It is possible to look at how much diversity there is on a team by calculating the standard deviation, or how much team member differs on a characteristic. For example, team experience, quantified as the continuous number of years a team member has been on a specific team, could be measured this way. A standard deviation of experience would show the variability in team members’ amount of experience in comparison to each other, (Humphrey et al, 2009).

## Future research and implications

As organizations continues to change in part due to globalization of business and advancements in technology, the way in which team composition strategies are implemented must keep up. There is a strong need for further research on how to measure team composition as well as which methods of measurement are most appropriate for which characteristics. Are teams better off with a balance of a trait? Should minimums or maximums of particular traits be avoided? How can it be determined when a team has enough cohesion or social awareness? Should decision-making be facilitated by someone external to the group?

To answer these questions, there is also a need to more concretely define the characteristics in order to allow for the generalizability of research findings from one organization to another. To strengthen research results, studies also need to be conducted longitudinally in order to capture changing team characteristics such as emergent states.

There are innumerable decisions to be made upon constructing a team of individuals who will be able to successfully perform. It is crucial to consider all of the discussed variables that determine team composition as well as monitor those that are determined by team composition.

The overarching perspective looks at the homogeneity and heterogeneity of a team's composition. There is a continuous debate of which type of composition is most desirable. For this, and all factors of team composition, it is truly on a case-by-case basis. This leaves the door wide open for continued research on different teams in different settings with different compositions.

***The Five Dysfunctions of a Team***

According to the book, ***The Five Dysfunctions of a Team***by consultant and speaker [Patrick Lencioni](http://en.wikipedia.org/wiki/Patrick_Lencioni),

the five dysfunctions are[[3]](http://en.wikipedia.org/wiki/The_Five_Dysfunctions_of_a_Team#cite_note-2):

* Absence of trust—unwilling to be *vulnerable* within the group
* Fear of conflict—seeking *artificial harmony* over constructive passionate debate
* Lack of commitment—feigning buy-in for group decisions creates *ambiguity* throughout the organization
* Avoidance of accountability—ducking the responsibility to call peers on counterproductive behaviour which sets *low standards*
* Inattention to results—focusing on personal success, *status and ego* before team success

**Leadership**

**Leadership** has been described as “a process of [social influence](http://en.wikipedia.org/wiki/Social_influence) in which one person can enlist the aid and [support](http://en.wikipedia.org/wiki/Peer_support) of others in the accomplishment of a common [task](http://en.wikipedia.org/wiki/Task_(project_management))".[[1]](http://en.wikipedia.org/wiki/Leadership#cite_note-0) Other in-depth definitions of leadership have also emerged.

Leadership is "organizing a group of people to achieve a common goal". The leader may or may not have any formal authority. Students of leadership have produced theories involving traits,[[2]](http://en.wikipedia.org/wiki/Leadership#cite_note-refLocke1991-1)situational interaction, function, behavior, power, vision and values,[[3]](http://en.wikipedia.org/wiki/Leadership#cite_note-2) [charisma](http://en.wikipedia.org/wiki/Charisma), and intelligence, among others. Somebody whom people follow: somebody who guides or directs others.

## Styles

[Leadership style](http://en.wikipedia.org/wiki/Leadership_style) refers to a leader's behavior. It is the result of the philosophy, personality, and experience of the leader. Rhetoric specialists have also developed models for understanding leadership ([Robert Hariman](http://en.wikipedia.org/wiki/Robert_Hariman), *Political Style*,[[46]](http://en.wikipedia.org/wiki/Leadership#cite_note-45) [Philippe-Joseph Salazar](http://en.wikipedia.org/wiki/Philippe-Joseph_Salazar), *L'Hyperpolitique. Technologies politiques De La Domination*[[47]](http://en.wikipedia.org/wiki/Leadership#cite_note-46)).

Different situations call for different leadership styles. In an emergency when there is little time to converge on an agreement and where a designated authority has significantly more experience or expertise than the rest of the team, an autocratic leadership style may be most effective; however, in a highly motivated and aligned team with a homogeneous level of expertise, a more democratic or laissez-faire style may be more effective. The style adopted should be the one that most effectively achieves the objectives of the group while balancing the interests of its individual members.[[48]](http://en.wikipedia.org/wiki/Leadership#cite_note-Lewin-47)

### Autocratic or authoritarian style

Under the [autocratic](http://en.wikipedia.org/wiki/Autocratic) leadership style, all decision-making powers are centralized in the leader, as with [dictators](http://en.wikipedia.org/wiki/Dictator).

Leaders do not entertain any suggestions or initiatives from subordinates. The autocratic management has been successful as it provides strong motivation to the manager. It permits quick decision-making, as only one person decides for the whole group and keeps each decision to him/herself until he/she feels it needs to be shared with the rest of the group.[[48]](http://en.wikipedia.org/wiki/Leadership#cite_note-Lewin-47)

### Participative or democratic style

The democratic leadership style consists of the leader sharing the decision-making abilities with group members by promoting the interests of the group members and by practicing social equality.

### Laisez-faire or free rein style

A person may be in a leadership position without providing leadership, leaving the group to fend for itself. Subordinates are given a free hand in deciding their own policies and methods.

### Narcissistic leadership

Various academics such as [Kets de Vries](http://en.wikipedia.org/wiki/Manfred_F.R._Kets_de_Vries), [Maccoby](http://en.wikipedia.org/wiki/Michael_Maccoby), and Thomas have identified [narcissistic](http://en.wikipedia.org/wiki/Narcissistic) leadership as an important and common leadership style.

### Toxic leadership

A [toxic leader](http://en.wikipedia.org/wiki/Toxic_leader) is someone who has responsibility over a group of people or an organization, and who abuses the leader-follower relationship by leaving the group or organization in a worse-off condition than when he/she first found them.

## Contexts

### Organizations

An organization that is established as an [instrument](http://en.wikipedia.org/wiki/Legal_instrument) or means for achieving defined [objectives](http://en.wikipedia.org/wiki/Objective_(goal)) has been referred to as a *formal organization*. Its design specifies how goals are subdivided and reflected in subdivisions of the organization. Divisions, departments, sections, positions, [jobs](http://en.wikipedia.org/w/index.php?title=Occupation_(economic)&action=edit&redlink=1), and tasks make up this work [structure](http://en.wikipedia.org/wiki/Structure). Thus, the formal organization is expected to behave impersonally in regard to relationships with clients or with its members. According to Weber's definition, entry and subsequent advancement is by merit or seniority. Employees receive a salary and enjoy a degree of tenure that safeguards them from the arbitrary influence of superiors or of powerful clients. The higher one's position in the hierarchy, the greater one's presumed expertise in adjudicating problems that may arise in the course of the work carried out at lower levels of the organization. It is this bureaucratic structure that forms the basis for the appointment of heads or chiefs of administrative subdivisions in the organization and endows them with the authority attached to their position.[[50]](http://en.wikipedia.org/wiki/Leadership#cite_note-Cecil-49)

In contrast to the appointed head or chief of an administrative unit, a leader emerges within the context of the *informal organization* that underlies the formal structure. The informal organization expresses the personal [objectives](http://en.wikipedia.org/wiki/Objective_(goal)) and [goals](http://en.wikipedia.org/wiki/Goal) of the individual [membership](http://en.wiktionary.org/wiki/Membership). Their objectives and goals may or may not coincide with those of the formal organization. The informal organization represents an extension of the social structures that generally characterize human life — the spontaneous emergence of groups and organizations as ends in themselves.

In prehistoric times, humanity was preoccupied with personal security, maintenance, protection, and survival. Now humanity spends a major portion of waking hours working for organizations. The need to identify with a community that provides security, protection, maintenance, and a feeling of belonging has continued unchanged from prehistoric times. This need is met by the informal organization and its emergent, or unofficial, leaders.[[51]](http://en.wikipedia.org/wiki/Leadership#cite_note-Henry-50)[[52]](http://en.wikipedia.org/wiki/Leadership#cite_note-51)

Leaders emerge from within the structure of the informal organization. Their personal qualities, the demands of the situation, or a combination of these and other factors attract followers who accept their leadership within one or several overlay structures. Instead of the authority of position held by an appointed head or chief, the emergent leader wields influence or power. Influence is the ability of a person to gain co-operation from others by means of persuasion or control over rewards. Power is a stronger form of influence because it reflects a person's ability to enforce action through the control of a means of punishment.[[51]](http://en.wikipedia.org/wiki/Leadership#cite_note-Henry-50)

A leader is a person who influences a group of people towards a specific result. It is not dependent on title or formal authority. (Elevos, paraphrased from Leaders, Bennis, and Leadership Presence, Halpern &Lubar.) Ogbonnia (2007) defines an effective leader "as an individual with the capacity to consistently succeed in a given condition and be viewed as meeting the expectations of an organization or society." Leaders are recognized by their capacity for caring for others, clear communication, and a commitment to persist.[[53]](http://en.wikipedia.org/wiki/Leadership#cite_note-52) An individual who is appointed to a managerial position has the right to command and enforce obedience by virtue of the authority of his position. However, she or he must possess adequate personal attributes to match this authority, because authority is only potentially available to him/her. In the absence of sufficient personal competence, a manager may be confronted by an emergent leader who can challenge her/his role in the organization and reduce it to that of a figurehead. However, only authority of position has the backing of formal sanctions. It follows that whoever wields personal influence and power can legitimize this only by gaining a formal position in the hierarchy, with commensurate authority.[[51]](http://en.wikipedia.org/wiki/Leadership#cite_note-Henry-50) Leadership can be defined as one's ability to get others to willingly follow. Every organization needs leaders at every level.[[54]](http://en.wikipedia.org/wiki/Leadership#cite_note-The_Top_10_Leadership_Qualities-53)

### Management

Over the years the philosophical terminology of "management" and "leadership" have, in the organizational context, been used both as synonyms and with clearly differentiated meanings. Debate is fairly common about whether the use of these terms should be restricted, and generally reflects an awareness of the distinction made by Burns (1978) between "transactional" leadership (characterized by e.g. emphasis on procedures, contingent reward, management by exception) and "transformational" leadership (characterized by e.g. charisma, personal relationships, creativity).[[40]](http://en.wikipedia.org/wiki/Leadership#cite_note-Burns-39)

### Group leadership

In contrast to individual leadership, some organizations have adopted group leadership. In this situation, more than one person provides direction to the group as a whole. Some organizations have taken this approach in hopes of increasing creativity, reducing costs, or downsizing. Others may see the traditional leadership of a [boss](http://en.wiktionary.org/wiki/boss) as costing too much in team performance. In some situations, the team members best able to handle any given phase of the project become the temporary leaders. Additionally, as each team member has the opportunity to experience the elevated level of empowerment, it energizes staff and feeds the cycle of success.[[55]](http://en.wikipedia.org/wiki/Leadership#cite_note-Bens-54)

Leaders who demonstrate persistence, tenacity, determination, and synergistic communication skills will bring out the same qualities in their groups. Good leaders use their own inner mentors to energize their team and organizations and lead a team to achieve success.[[56]](http://en.wikipedia.org/wiki/Leadership#cite_note-breakthrough-leader-55)

***According to the National School Boards Association (USA):***[[57]](http://en.wikipedia.org/wiki/Leadership#cite_note-56)

These Group Leaderships or Leadership Teams have specific characteristics:

**Characteristics of a Team**

* There must be an awareness of unity on the part of all its members.
* There must be interpersonal relationship. Members must have a chance to contribute, and learn from and work with others.
* The members must have the ability to act together toward a common goal.

**Ten characteristics of well-functioning teams:**

* Purpose: Members proudly share a sense of why the team exists and are invested in accomplishing its mission and goals.
* Priorities: Members know what needs to be done next, by whom, and by when to achieve team goals.
* Roles: Members know their roles in getting tasks done and when to allow a more skillful member to do a certain task.
* Decisions: Authority and decision-making lines are clearly understood.
* Conflict: Conflict is dealt with openly and is considered important to decision-making and personal growth.
* Personal traits: members feel their unique personalities are appreciated and well utilized.
* Norms: Group norms for working together are set and seen as standards for every one in the groups.
* Effectiveness: Members find team meetings efficient and productive and look forward to this time together.
* Success: Members know clearly when the team has met with success and share in this equally and proudly.
* Training: Opportunities for feedback and updating skills are provided and taken advantage of by team members.

### Self-Leadership

[Self-Leadership](http://en.wikipedia.org/wiki/Communication_and_Leadership_During_Change) is a process that occurs within an individual, rather than an external act. It is an expression of who we are as people.[[58]](http://en.wikipedia.org/wiki/Leadership#cite_note-57)

### Primates

[Mark van Vugt](http://en.wikipedia.org/wiki/Mark_van_Vugt) and [AnjanaAhuja](http://en.wikipedia.org/wiki/Anjana_Ahuja) in *Naturally Selected: The Evolutionary Science of Leadership* present evidence of leadership in nonhuman animals, from ants and bees to baboons and chimpanzees. They suggest that leadership has a long evolutionary history and that the same mechanisms underpinning leadership in humans can be found in other social species, too.[[59]](http://en.wikipedia.org/wiki/Leadership#cite_note-58)[Richard Wrangham](http://en.wikipedia.org/wiki/Richard_Wrangham) and [Dale Peterson](http://en.wikipedia.org/wiki/Dale_Peterson), in [*Demonic Males: Apes and the Origins of Human Violence*](http://en.wikipedia.org/wiki/Demonic_Males:_Apes_and_the_Origins_of_Human_Violence), present evidence that only [humans](http://en.wikipedia.org/wiki/Homo_sapiens) and [chimpanzees](http://en.wikipedia.org/wiki/Chimpanzee), among all the [animals](http://en.wikipedia.org/wiki/Animal) living on [Earth](http://en.wikipedia.org/wiki/Earth), share a similar tendency for a cluster of behaviors: [violence](http://en.wikipedia.org/wiki/Violence), [territoriality](http://en.wikipedia.org/wiki/Territory_(animal)), and [competition](http://en.wikipedia.org/wiki/Competition) for uniting behind the one chief male of the land.[[60]](http://en.wikipedia.org/wiki/Leadership#cite_note-59) This position is contentious. Many animals beyond apes are territorial, compete, exhibit violence, and have a social structure controlled by a dominant male (lions, wolves, etc.), suggesting Wrangham and Peterson's evidence is not empirical. However, we must examine other species as well, including elephants (which are matriarchal and follow an alpha female), meerkats (who are likewise matriarchal), and many others.

By comparison, [bonobos](http://en.wikipedia.org/wiki/Bonobo), the second-closest species-relatives of humans, do *not* unite behind the chief male of the land. The bonobos show deference to an alpha or top-ranking female that, with the support of her coalition of other females, can prove as strong as the strongest male. Thus, if leadership amounts to getting the greatest number of followers, then among the bonobos, a female almost always exerts the strongest and most effective leadership. However, not all scientists agree on the allegedly peaceful nature of the bonobo or its reputation as a "[hippie](http://en.wikipedia.org/wiki/Hippie) chimp".[[2]](http://www.newyorker.com/reporting/2007/07/30/070730fa_fact_parker)

## Leadership Myths

Leadership, although largely talked about, has been described as one of the least understood concepts across all cultures and civilizations. Over the years, many researchers have stressed the prevalence of this misunderstanding, stating that the existence of several flawed assumptions, or myths, concerning leadership often interferes with individuals’ conception of what leadership is all about (Gardner, 1965; Bennis, 1975).[[63]](http://en.wikipedia.org/wiki/Leadership#cite_note-Gardner-62)[[64]](http://en.wikipedia.org/wiki/Leadership#cite_note-Bennis-63)

### Leadership is innate

According to some, leadership is determined by distinctive [dispositional characteristics](http://en.wikipedia.org/wiki/Dispositional_affect) present at birth (e.g., [extraversion](http://en.wikipedia.org/wiki/Extraversion_and_introversion); [intelligence](http://en.wikipedia.org/wiki/Intelligence); [ingenuity](http://en.wikipedia.org/wiki/Ingenuity)). However, it is important to note that leadership also develops through hard work and careful observation.[[65]](http://en.wikipedia.org/wiki/Leadership#cite_note-Forsyth-64) Thus, effective leadership can result from [nature](http://en.wikipedia.org/wiki/Nature_versus_nurture) (i.e., innate talents) as well as [nurture](http://en.wikipedia.org/wiki/Nature_versus_nurture) (i.e., acquired skills).

### Leadership is possessing power over others

Although leadership is certainly a form of [power](http://en.wikipedia.org/wiki/Power_(philosophy)), it is not demarcated by power *over* people – rather, it is a power *with* people that exists as a reciprocal relationship between a leader and his/her followers (Forsyth, 2009).[[65]](http://en.wikipedia.org/wiki/Leadership#cite_note-Forsyth-64) Despite popular belief, the use of manipulation, [coercion](http://en.wikipedia.org/wiki/Coercion), and domination to influence others is not a requirement for leadership. In actuality, individuals who seek group consent and strive to act in the best interests of others can also become effective leaders (e.g., class president; court judge).

### Leaders are positively influential

The [validity](http://en.wikipedia.org/wiki/Validity) of the assertion that groups flourish when guided by effective leaders can be illustrated using several examples. For instance, according to Baumeister et al. (1988), the [bystander effect](http://en.wikipedia.org/wiki/Bystander_effect) (failure to respond or offer assistance) that tends to develop within groups faced with an emergency is significantly reduced in groups guided by a leader.[[66]](http://en.wikipedia.org/wiki/Leadership#cite_note-baumeister-65) Moreover, it has been documented that group performance,[[67]](http://en.wikipedia.org/wiki/Leadership#cite_note-jung-66) [creativity](http://en.wikipedia.org/wiki/Creativity),[[68]](http://en.wikipedia.org/wiki/Leadership#cite_note-zaccaro-67) and [efficiency](http://en.wikipedia.org/wiki/Efficiency) [[69]](http://en.wikipedia.org/wiki/Leadership#cite_note-Larson-68) all tend to climb in businesses with designated managers or CEOs. However, the difference leaders make is **not** always positive in nature. Leaders sometimes focus on fulfilling their own agendas at the expense of others, including his/her own followers (e.g., [Pol Pot](http://en.wikipedia.org/wiki/Pol_Pot); [Josef Stalin](http://en.wikipedia.org/wiki/Joseph_Stalin)). Leaders who focus on personal gain by employing stringent and manipulative leadership styles often make a difference, but usually do so through negative means.[[70]](http://en.wikipedia.org/wiki/Leadership#cite_note-blumen-69)

### Leaders entirely control group outcomes

In [Western cultures](http://en.wikipedia.org/wiki/Western_culture) it is generally assumed that group leaders make *all* the difference when it comes to group influence and overall goal-attainment. Although common, this romanticized view of leadership (i.e., the tendency to overestimate the degree of control leaders have over their groups and their groups’ outcomes) ignores the existence of many other factors that influence group dynamics.[[71]](http://en.wikipedia.org/wiki/Leadership#cite_note-meindl-70) For example, [group cohesion](http://en.wikipedia.org/wiki/Group_cohesiveness), [communication patterns](http://en.wikipedia.org/wiki/Organizational_communication) among members, individual personality traits, group context, the nature or orientation of the work, as well as [behavioral norms](http://en.wikipedia.org/wiki/Norm_(social))and established standards influence group functionality in varying capacities. For this reason, it is unwarranted to assume that all leaders are in complete control of their groups' achievements.

### All groups have a designated leader

Despite preconceived notions, not all groups need have a designated leader. Groups that are primarily composed of women,[[72]](http://en.wikipedia.org/wiki/Leadership#cite_note-schmid-71)[[73]](http://en.wikipedia.org/wiki/Leadership#cite_note-berdahl-72) are limited in size, are free from stressful decision-making,[[74]](http://en.wikipedia.org/wiki/Leadership#cite_note-guastello-73) or only exist for a short period of time (e.g., student work groups; pub quiz/trivia teams) often undergo a [diffusion of responsibility](http://en.wikipedia.org/wiki/Diffusion_of_responsibility), where leadership tasks and roles are shared amongst members (Schmid Mast, 2002; Berdahl& Anderson, 2007; Guastello, 2007).

### Group members resist leaders

Although research has indicated that group members’ dependence on group leaders can lead to reduced self-reliance and overall group strength,[[65]](http://en.wikipedia.org/wiki/Leadership#cite_note-Forsyth-64) most people actually prefer to be led than to be without a leader (Berkowitz, 1953).[[75]](http://en.wikipedia.org/wiki/Leadership#cite_note-berk-74) This "need for a leader" becomes especially strong in troubled groups that are experiencing some sort of conflict. Group members tend to be more contented and productive when they have a leader to guide them. Although individuals filling leadership roles can be a direct source of resentment for followers, most people appreciate the contributions that leaders make to their groups and consequently welcome the guidance of a leader (Stewart &Manz, 1995).[[76]](http://en.wikipedia.org/wiki/Leadership#cite_note-manz-75)

# Cross-cultural leadership

[Cross-cultural psychology](http://en.wikipedia.org/wiki/Cross-cultural_psychology) attempts to understand how individuals of different [cultures](http://en.wikipedia.org/wiki/Culture) interact with each other (Abbe, Gulick, & Herman, 2007). Along these lines, **cross-cultural leadership** has developed as a way to understand leaders who work in the newly [globalized](http://en.wikipedia.org/wiki/Globalization) market. Today’s international organizations require leaders who can adjust to different environments quickly and work with partners and employees of other cultures (House, Javidan, &Dorfman, 2001). It cannot be assumed that a manager who is successful in one country will be successful in another (Javidan, Dorfman, de Luque, & House, 2006; Brodbeck, Frese, Akerblom, Audia, Bakacsi, &Bendova, 2000).

The following sections discuss the various aspects of cross-cultural leadership including: related theories and research, definitions of the construct itself and characteristics that are exhibited from such leaders, and antecedents to and implications of being a cross-cultural leader.

# Leadership Styles across Cultures

Leadership is a universal phenomenon (Bass, 1997). That is, wherever there are people, there are leaders. The question here is not whether leadership exists across cultures, but do various leadership styles (paternalistic leadership, transformational leadership, transactional leadership) translate across cultures?

#### Paternalistic Leadership

[Paternalistic](http://en.wikipedia.org/wiki/Paternalistic) leadership “combines strong discipline and authority with fatherly benevolence and moral integrity couched in a ‘personalistic’ atmosphere” (Farh& Cheng, 2000, p. 94). Paternalistic leadership is composed of three main elements: authoritarianism, benevolence, and moral leadership (Farh& Cheng). At its roots, paternalistic leadership refers to a hierarchical relationship in which the leader takes personal interest in the workers’ professional and personal lives in a manner resembling a parent, and expects loyalty and respect in return (Gelfand, Erez, &Aycan, 2007).

A great deal of research has been conducted on the prevalence of this leadership style in non-Western business organizations, indicating the prevalence of paternalistic leadership in countries like China and Taiwan (Pellegrini&Scandura, 2008). However, considerably less research has been done on whether paternalistic leadership exists in Western cultures. Recently, there has been an increase in the amount of attention placed on paternalistic leadership in non-Western cultures. Although it is a relatively new area of focus in leadership research, evidence has been found supporting the relationship between paternalism and positive work attitudes in numerous cultures, including the Middle East, Latin America, and Pacific Asia (Pellegrini&Scandura, 2008). In a recent study, Pellegrini, Scandura, and Jayaraman (2010) examined paternalism in the Western business context and found that paternalistic leadership was positively associated with job satisfaction in India, but not in the United States. In both Indian and United States cultures, paternalistic leadership was positively related to leader-member exchange and organizational commitment (Pellegrini, Scandura&Jayaraman, 2010). Based on recent cross-cultural studies, paternalistic leadership seems to be more apparent across cultures than previously believed. Further research is needed to explore how prevalent it is, and how individual characteristics may play a role in where paternalistic leadership is found.

#### Transformational & Transactional Leadership

In addition to paternalistic leadership, other well-known leadership styles include [transformational leadership](http://en.wikipedia.org/wiki/Transformational_leadership) and [transactional leadership](http://en.wikipedia.org/wiki/Transactional_leadership). Transformational leadership is loosely defined as a charismatic leadership style that rallies subordinates around a common goal with enthusiasm and support. Transactional leadership is characterized by a give and take relationship using rewards as an incentive. These concepts were introduced by Bass (1985) and have been updated and studied throughout the years, claiming the transferability of these types of leadership styles across cultures. In fact, Bass and Avolio (1994) went as far as to give an optimal leadership profile for leaders around the world.

Shahin and Wright (2004) decided to test this theory in Egypt, an emerging market that had yet to be studied. In a questionnaire study of employees at 10 different banks, responses indicated that only 3 of the 7 factors that were found in the ideal leadership style in Egypt corresponded with the US factors. The other 4 were unique to Egypt or perhaps the Middle East in general. These results indicate an inability to assume that transactional and transformational leadership will succeed in non-western cultures. Casimir, Waldman, Bartram, and Yang (2006) similarly found that these leadership styles may not be as universal as some assume. In a study of transactional and transformational leadership in China and Australia, results indicated that transformational leadership significantly predicted performance and trust in the Australian population, while only predicting trust, and not performance in the Chinese population. Transactional leadership did not predict trust or performance in either population. This is another indication that these theories may not be as universal as proposed.

In opposition to the above findings, Walumbwa, Lawler, and Avolio (2007) compared data from China, India, Kenya, and the U.S. and found a strong presence of transformational and/or transactional leadership in these countries. Allocentrists, similar to [collectivists](http://en.wikipedia.org/wiki/Collectivists), respond more positively to transformational leadership because they unite individuals around a common goal. Idiocentrists, essentially individuals found in [individualistic](http://en.wikipedia.org/wiki/Individualistic) cultures, are more amenable to transactional leaders who reward individuals for hard work and success and less amenable to leaders who encourage group work and reduce individual identity. Although these leadership styles are not appropriate in every country, this study shows that as long as the appropriate style of leadership (either transactional or transformational) is used in the correct country, followers will respond positively. Further studies should be conducted for consensus.

Meeting

In a **meeting**, two or more people come together to discuss one or more topics, often in a formal setting.

Definitions

An act or process of coming together as an assembly for a common purpose.[[1]](http://en.wikipedia.org/wiki/Meeting#cite_note-pu-0)

A meeting is a gathering of two or more people that has been convened for the purpose of achieving a common goal through verbal interaction, such as sharing information or reaching agreement.[[2]](http://en.wikipedia.org/wiki/Meeting#cite_note-pi-1) Meetings may occur face to face or virtually, as mediated by communications technology, such as a[telephone conference call](http://en.wikipedia.org/wiki/Conference_call), a [skyped conference call](http://en.wikipedia.org/wiki/Skype) or a [videoconference](http://en.wikipedia.org/wiki/Videoconferencing).

Thus, a meeting may be distinguished from other gatherings, such as a chance encounter (not convened), a sports game or a concert (verbal interaction is incidental), a party or the company of friends (no common goal is to be achieved) and a demonstration (whose common goal is achieved mainly through the number of demonstrators present, not verbal interaction and the consumption of doughnuts).

Commercially, the term is used by meeting planners and other meeting professionals to denote an event booked at a hotel, convention center or any other venue dedicated to such gatherings.[[2]](http://en.wikipedia.org/wiki/Meeting#cite_note-pi-1) In this sense, the term meeting covers a lecture (one presentation), seminar (typically several presentations, small audience, one day), conference (mid-size, one or more days), congress (large, several days), exhibition or trade show (with manned stands being visited by passers-by), workshop (smaller, with active participants), training course, team-building session and kick-off event.

Types of meetings

Common types of meeting include:

* [Ad-hoc](http://en.wikipedia.org/wiki/Ad-hoc) meeting, a meeting called for a special purpose
* [Board](http://en.wikipedia.org/wiki/Board_of_directors) meeting, a meeting of the [Board of directors](http://en.wikipedia.org/wiki/Board_of_directors) of an organization
* Investigative Meeting, generally when conducting a pre-interview, exit interview or a meeting among the investigator and representative
* [Kickoff meeting](http://en.wikipedia.org/wiki/Kickoff_meeting), the first meeting with the project team and the client of the project to discuss the role of each team member
* Management meeting, a meeting among managers
* [Off-site](http://en.wikipedia.org/wiki/Off-site) meeting, also called "offsite retreat" and known as an [Awayday](http://en.wikipedia.org/wiki/Awayday) meeting in the UK
* One-on-one meeting, between two individuals
* Pre-Bid Meeting, a meeting of various competitors and or contractors to visually inspect a jobsite for a future project. The meeting is normally hosted by the future customer or engineer who wrote the project specification to ensure all bidders are aware of the details and services expected of them. Attendance at the Pre-Bid Meeting may be mandatory. Failure to attend usually results in a rejected bid
* Staff meeting, typically a meeting between a manager and those that report to the manager
* Team meeting, a meeting among colleagues working on various aspects of a team project
* Work Meeting, which produces a product or intangible result such as a decision

Meeting frequency options

Since a meeting can be held once or often, the meeting organizer has to determine the repetition and frequency of occurrence of the meeting. Options generally include the following:

* A *one-time meeting* is the most common meeting type and covers events that are self-contained. While they may repeat often, the individual meeting is the entirety of the event. This can include a 2006 conference. The 2007 version of the conference is a stand-alone meeting event.
* A *recurring meeting* is a meeting that recurs periodically, such as an every Monday staff meeting from 9:00AM to 9:30 AM. The meeting organizer wants the participants to be at the meeting on a constant and repetitive basis. A recurring meeting can be ongoing, such as a weekly team meeting, or have an end date, such as a 5 week training meeting, held every Friday afternoon.
* A *series meeting* is like a recurring meeting, but the details differ from meeting to meeting. One example of a series meeting is a monthly "lunch and learn" event at a company, church, club or organization. The placeholder is the same, but the agenda and topics to be covered vary. This is more of a recurring meeting with the details to be determined.

Agenda (meeting)

From Wikipedia, the free encyclopedia

An **agenda** is a list of [meeting](http://en.wikipedia.org/wiki/Meeting) activities in the order in which they are to be taken up, by beginning with the call to order and ending with adjournment. It usually includes one or more specific items of business to be discussed. It may, but is not required to, include specific times for one or more activities. An agenda may also be called a [docket](http://en.wikipedia.org/wiki/Docket).

Explanation

In business meetings of [deliberative bodies](http://en.wikipedia.org/wiki/Deliberative_body), the agenda may also be known as the **orders of the day**. The agenda is usually distributed to a meeting's participants prior to the meeting, so that they will be aware of the subjects to be discussed, and are able to prepare for the meeting accordingly.

In [parliamentary procedure](http://en.wikipedia.org/wiki/Parliamentary_procedure), an agenda is not binding upon an assembly unless its own rules make it so, or unless it has been adopted as the agenda for the meeting by majority vote at the start of the meeting. Otherwise, it is merely for the guidance of the [chair](http://en.wikipedia.org/wiki/Chair_(official)).

If an agenda is binding upon an assembly, and a specific time is listed for an item, that item cannot be taken up before that time, and must be taken up when that time arrives even if other business is pending. If it is desired to do otherwise, the rules can be suspended for that purpose.

Typical layout of an agenda

The agenda is usually headed with the [date](http://en.wikipedia.org/wiki/Calendar_date), [time](http://en.wikipedia.org/wiki/Time) and location of the meeting, followed by a series of points outlining the order of the agenda and the entire complete thing made up by the secretary and members of the executive: Points on a typical agenda may include:

* Welcome/open meeting
* Apologies for absence
* Approve [minutes](http://en.wikipedia.org/wiki/Minutes) of the previous meeting
* Matters arising from the previous meeting
* A list of specific points to be discussed — this section is where the bulk of the discussion as well as *decisions* in the meeting usually takes place
* Any other business (AOB) — allowing a participant to raise another point for discussion.
* Arrange/announce details of next meeting
* Close meeting

Facilitation (business)

**Facilitation** in [business](http://en.wikipedia.org/wiki/Business), [organizational development](http://en.wikipedia.org/wiki/Organizational_development) (OD) and in [consensus decision-making](http://en.wikipedia.org/wiki/Consensus_decision-making) refers to the process of designing and running a successful [meeting](http://en.wikipedia.org/wiki/Meeting).

Facilitation concerns itself with all the tasks needed to run a [productive](http://en.wikipedia.org/wiki/Productivity_(economics)) and impartial meeting. Facilitation serves the needs of any group who are meeting with a common purpose, whether it be making a decision, solving a problem, or simply exchanging ideas and information. It does not [lead](http://en.wikipedia.org/wiki/Leadership) the group, nor does it try to distract or to entertain. A slightly different interpretation focuses more specifically on a group that is engaged in [experiential learning](http://en.wikipedia.org/wiki/Experiential_learning).[[1]](http://en.wikipedia.org/wiki/Facilitation_(business)#cite_note-Heron-0) In particular this is associated with [active learning](http://en.wikipedia.org/wiki/Active_learning) and concepts of [tutelary](http://en.wikipedia.org/wiki/Tutor) authority. This is covered in-depth in the research work of [John Heron](http://en.wikipedia.org/wiki/John_Heron) at the [University of Surrey](http://en.wikipedia.org/wiki/University_of_Surrey) and the International Centre for [Co-operative Inquiry](http://en.wikipedia.org/wiki/Cooperative_inquiry).

Aspects of facilitation

* **The role of the**[**facilitator**](http://en.wikipedia.org/wiki/Facilitator)**.** (see below) The role of facilitator only emerged as a separate set of skills in the 1980s. It has similarities to the traditional [Chair](http://en.wikipedia.org/wiki/Chair_(official)) or [secretary](http://en.wikipedia.org/wiki/Secretary) roles in a meeting but goes beyond them to actively participate and guide the group towards consensus.
* **Setting ground rules.** Often disregarded by those untrained in facilitation, setting ground rules is a key component of the facilitation process especially in meetings convened to discuss difficult problems or for training. These rules are usually reiterated in some form at the outset of a facilitated meeting or workshop to ensure participants understand the various roles being employed and the responsibilities accorded to each. Certain aspects feature highly such as:
* being open to suggestions
* building on what is there, not knocking down ideas
* allowing others space (to speak or express themselves)
* mutual respect
* that the facilitator does not own the topic under discussion and the identity of that owner is clear
* rules of engagement such as time-outs and procedures that will be adopted
* how unresolved issues will be captured and dealt with
* Finally it is key that, during the meeting, it is clear that the owner of the topic is not expected to intervene to impose ideas beyond setting out parameters for consideration or to give insight. The facilitator in this respect owns the process of the meeting.

These are all closely associated with the idea of facilitation as a tool of (workplace) [empowerment](http://en.wikipedia.org/wiki/Empowerment).[[1]](http://en.wikipedia.org/wiki/Facilitation_(business)#cite_note-Heron-0)

* **Consulting with the client**. A facilitator will work with a client who is someone in an organisation, or diverse group, who is calling them and has invited the facilitator to assist. They will try to understand the purpose and outcome of the meeting by discussing it with the client.
* **Making arrangements for the**[**meeting**](http://en.wikipedia.org/wiki/Meeting)**.** The practical arrangements will be arranged or managed by the facilitator. They will also consider in detail the location and layout of the room. They will research the meeting beforehand to understand why it is being held and that all [stakeholders](http://en.wikipedia.org/wiki/Project_stakeholder) are invited and able to attend.
* **Setting the**[**agenda**](http://en.wikipedia.org/wiki/Agenda_(meeting))**.** They will understand in detail how each item on the agenda is to be tackled and how long it should take. Using specialist techniques they will allow participants to understand all the issues at stake and all alternative courses of action.
* **Understanding group**[**norms**](http://en.wikipedia.org/wiki/Norm_(sociology))**.** They will not make assumptions about the way people interact and will try to adapt to the ways of different cultures and organisations.
* **Understanding**[**group dynamics**](http://en.wikipedia.org/wiki/Group_dynamics)**.** Whilst tackling the practical aspects of a meeting they remain aware of undercurrents, both verbal and non-verbal, which may indicate problems the group is having. The facilitator may try to assist the group in becoming aware of these.

The role of the facilitator

*See the*[*facilitator*](http://en.wikipedia.org/wiki/Facilitator)*article for details of exactly how a facilitator might run a meeting.*

It is important to note that the tasks and responsibilities listed below do not need to be covered by a single facilitator. The role of the facilitator is often shared by multiple people, for instance one person may arrange the logistics before the meeting, another person may keep time and monitor the agenda during the meeting, and a third person may be responsible for recording agreements.

* Prior to a meeting, facilitators:
* research the meeting before it happens
* find out the purpose and goal (if any) of the meeting
* establish who needs to attend
* draw up a draft agenda and design the group processes to attain the necessary results
* share the agenda with potential attendees, changing it as necessary
* ensure everyone gets fully briefed for the meeting and that everyone knows the purpose and potential consequences of the meeting
* During the meeting, facilitators:
* monitor the agenda
* keep time
* manage the group process
* encourage participation from all attendees
* help participants understand different points of view
* foster solutions that incorporate diverse points of view
* manage participant behaviour
* create a safe environment
* teach new thinking skills and facilitate structured thinking activities
* record (with an agreed phraseology) agreements. They may also note unresolved issues for later debate.
* The facilitator may write up and publish the results of the meeting to everyone concerned including those who could not attend.

The form of meeting

A meeting usually means everyone is together in the same room at the same time and this is the major situation in which facilitation is practiced. With the introduction of modern telecommunications the field has grown to embrace other forms of meetings:-

* **Same time same place** - the traditional meeting in a room with all parties present at the same time.
* **Same time different place** - the teleconference with either all parties at separate locations or with some in geographically dispersed sub meetings, all with audio / video connection.
* **Different time same place** - a meeting focusing on a notice board and poster display which allows individuals to add comments as they pass. Also, a survey using computers in a kiosk would be a "different time same place" meeting.
* **Different time different place** - meeting via a web link such as discussion groups, forums, blogs, and [usenet](http://en.wikipedia.org/wiki/Usenet). Specialist web-enabled group decision support software exists. Wikipedia discussion pages fall into this category.

# *Codes and practices, conflicts*

# Organizational conflict

**Organizational conflict** is a state of discord caused by the actual or perceived opposition of [needs](http://en.wikipedia.org/wiki/Needs), [values](http://en.wikipedia.org/wiki/Values) and interests between people working together. [Conflict](http://en.wiktionary.org/wiki/conflict) takes many forms in[organizations](http://en.wikipedia.org/wiki/Organization). There is the inevitable clash between formal authority and power and those individuals and groups affected. There are disputes over how revenues should be divided, how the work should be done, and how long and hard people should work. There are jurisdictional disagreements among [individuals](http://en.wikipedia.org/wiki/Individual), [departments](http://en.wikipedia.org/wiki/Departmentalization), and between [unions](http://en.wikipedia.org/wiki/Trade_union) and [management](http://en.wikipedia.org/wiki/Management). There are subtler forms of conflict involving rivalries, jealousies, personality clashes, role definitions, and struggles for power and favor. There is also conflict within individuals — between competing needs and demands — to which individuals respond in different ways.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

## Personal conflict

Conflict sometimes has a destructive effect on the [individuals](http://en.wikipedia.org/wiki/Individual) and [groups](http://en.wikipedia.org/wiki/Group_(sociology)) involved. At other times, however, conflict can increase the capacity of those affected to deal with problems, and therefore it can be used as a motivating force toward innovation and change. Conflict is encountered in two general forms. Personal conflict refers to an individual's inner workings and personality problems.[[2]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf2-1)

Many difficulties in this area are beyond the scope of [management](http://en.wikipedia.org/wiki/Management) and more in the province of a [professional counselor](http://en.wikipedia.org/w/index.php?title=Professional_counselor&action=edit&redlink=1), but there are some aspects of personal conflict that managers should understand and some they can possibly help remedy. Social conflict refers to interpersonal, intragroup, and intergroup differences.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

It was pointed out that there is a basic incompatibility between the authority and structure of formal organizations and the human personality. [Human behavior](http://en.wikipedia.org/wiki/Human_behavior) cannot be separated from the culture that surrounds it.[[2]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf2-1)

### Role Conflict

Another facet of personal conflict has to do with the multiple roles people play in organizations. [Behavioral](http://en.wikipedia.org/wiki/Behavioral) scientists sometimes describe an [organization](http://en.wikipedia.org/wiki/Organization) as a system of position roles. Each member of the organization belongs to a role set, which is an association of individuals who share interdependent tasks and thus perform formally defined roles, which are further influenced both by the expectations of others in the role set and by one's own personality and expectations. For example, in a common form of classroom organization, students are expected to learn from the instructor by listening to them, following their directions for study, taking exams, and maintaining appropriate standards of conduct. The [instructor](http://en.wikipedia.org/wiki/Teacher) is expected to bring students high-quality learning materials, give lectures, write and conduct tests, and set a scholarly example. Another in this role set would be the dean of the school, who sets standards, hires and supervises faculty, maintains a service [staff](http://en.wikipedia.org/wiki/Employment), readers and graders, and so on. The system of roles to which an individual belongs extends outside the organization as well, and influences their functioning within it. As an example, a person's roles as partner, parent, descendant, and church member are all intertwined with each other and with their set of organizational roles.[[3]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf5-2)

As a consequence, there exist opportunities for role conflict as the various roles interact with one another. Other types of role conflict occur when an individual receives inconsistent demands from another person; for example, they are asked' to serve on several time-consuming committees at the same time that they are urged to get out more production in their work unit. Another kind of role strain takes place when the individual finds that they are expected to meet the opposing demands of two or more separate members of the [organization](http://en.wikipedia.org/wiki/Organization). Such a case would be that of a worker who finds himself pressured by their boss to improve the quality of their work while their work group wants more production in order to receive a higher bonus share.

These and other varieties of role conflict tend to increase an individual's anxiety and [frustration](http://en.wikipedia.org/wiki/Frustration). Sometimes they motivate him to do more and better work. Other times they can lead to frustration and reduced efficiency.[[4]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Knowles-3)

## Organizational conflict theories

### Maturity-immaturity theory

According to Maslow, Argyris, McGregor, Rogers, and other writers of the so-called growth schools, there is a basic tendency in the development of the human personality toward self-fulfillment, or self-actualization. This implies that as an individual matures, they want to be given more responsibility, broader horizons, and the opportunity to develop their personal potential. This process is interrupted whenever a person's environment fails to encourage and nurture these desires.

Formal organizations are rational structures that, based on their assumption of emotions, feelings, and irrationality as human weaknesses, try to replace individual control with institutional control. Thus the principle of task specialization is seen as a device that simplifies tasks for the sake of efficiency. As a consequence, however, it uses only a fraction of a person's capacity and ability. The principle of chain of command centralizes authority but makes the individual more dependent on their superiors. The principle of normal span of control, which assigns a maximum of six or seven subordinates to report to the chief executive, reduces the number of individuals reporting to the head of the organization or to the manager of any subunit. Although this simplifies the job of control for the manager, it also creates more intensive surveillance of the subordinate, and therefore permits him less freedom to control himself.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

Under such conditions, subordinates are bound to find themselves in conflict with the formal organization, and sometimes with each other. They advance up the narrowing hierarchy where jobs get fewer, and "fewer" implies competing with others for the decreasing number of openings. Task specialization tends to focus the subordinate's attention on their own narrow function and divert him from thinking about the organization as a whole. This effect increases the need for coordination and leads to a circular process of increasing the dependence on the leader.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

They may respond to organizational pressures and threats by defensive reactions such as aggression against their supervisors and co-workers, fixated behavior or apathy, compromise and gamesmanship, or psychological withdrawal and daydreaming. All of these defense mechanisms reduce a person's potential for creative, constructive activity on the job. Finally, employees may organize unions or unsanctioned informal groups whose norms of behavior are opposed to many of the organization's goals. As a sort of self-fulfilling prophecy, all of these reactions to the constraints of the formal organization merely serve to reinforce and strengthen them.

The conflict between the formal organization and the individual will continue to exist wherever managers remain ignorant of its causes or wherever the organizational structure and the leadership style are allowed to become inconsistent with the legitimate needs of the psychologically healthy individual. Everyone recognizes the necessity for order and control in organizations. Those of us who enter management, however, must learn to recognize in addition that order and control can be achieved only at the expense of individual freedom.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

Subordinates adapt to these conditions in the organization in several ways. In the extreme, they may find the situation intolerable and leave the organization. Or they may strive to advance to positions of higher authority, there to adopt the controlling style they are trying to escape.

## Conflict within groups

Conflicts between people in work groups, committees, task forces, and other organizational forms of face-to-face groups are inevitable. As we have mentioned, these conflicts may be destructive as well as constructive.

Conflict arises in groups because of the scarcity of freedom, position, and resources. People who value independence tend to resist the need for interdependence and, to some extent, conformity within a group. People who seek power therefore struggle with others for position or status within the group. Rewards and recognition are often perceived as insufficient and improperly distributed, and members are inclined to compete with each other for these prizes.[[5]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf3-4)

In western culture, winning is more acceptable than losing, and competition is more prevalent than cooperation, all of which tends to intensify intragroup conflict. Group meetings are often conducted in a win-lose climate — that is, individual or subgroup interaction is conducted for the purpose of determining a winner and a loser rather than for achieving mutual problem solving.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

### Negative effects of group conflicts

The win-lose conflict in groups may have some of the following negative effects [[6]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf4-5):

1. Divert time and energy from the main issues
2. Delay decisions
3. Create [deadlocks](http://en.wikipedia.org/wiki/Deadlocks)
4. Drive unaggressive committee members to the sidelines
5. Interfere with listening
6. Obstruct exploration of more alternatives
7. Decrease or destroy [sensitivity](http://en.wikipedia.org/wiki/Sensitivity_(human))
8. Cause members to drop out or resign from committees
9. Arouse anger that disrupts a meeting
10. Interfere with [empathy](http://en.wikipedia.org/wiki/Empathy)
11. Leave losers resentful
12. Incline underdogs to [sabotage](http://en.wikipedia.org/wiki/Sabotage)
13. Provoke [personal abuse](http://en.wikipedia.org/wiki/Personal_abuse)
14. Cause defensiveness

### Results of group conflicts

Conflict in the group need not lead to negative results, however. The presence of a dissenting member or subgroup often results in more penetration of the group's problem and more creative solutions. This is because disagreement forces the members to think harder in an attempt to cope with what may be valid objections to general group opinion. But the group must know how to deal with differences that may arise.[[2]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf2-1)

True interdependence among members leads automatically to conflict resolution in the group. Interdependence recognizes that differences will exist and that they can be helpful. Hence, members learn to accept ideas from dissenters (which does not imply agreeing with them), they learn to listen and to value openness, and they learn to share a mutual problem-solving attitude to ensure the exploration of all facets of a problem facing the group.[[6]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf4-5)

Intergroup conflict between groups is a sometimes necessary, sometimes destructive, event that occurs at all levels and across all functions in [organizations](http://en.wikipedia.org/wiki/Organization). Intergroup conflict may help generate creative tensions leading to more effective [contributions](http://en.wikipedia.org/wiki/Contribution) to the organization's [goals](http://en.wikipedia.org/wiki/Goal), such as competition between sales districts for the highest [sales](http://en.wikipedia.org/wiki/Sales).[[3]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf5-2) Intergroup conflict is destructive when it alienates groups that should be working together, when it results in win-lose [competition](http://en.wikipedia.org/wiki/Competition), and when it leads to compromises that represent less-than-optimum outcomes.

Intergroup conflict occurs in two general forms. **Horizontal strain** involves competition between functions: for example, sales versus production, research and development versus engineering, purchasing versus legal, line versus staff, and so on. **Vertical strain** involves competition between hierarchical levels: for example, union versus management, foremen versus middle management, shop workers versus foremen.[[3]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf5-2) A struggle between a group of employees and management is an example of vertical strain or conflict. A clash between a sales department and production over inventory policy would be an example of horizontal strain.

Certain activities and attitudes are typical in groups involved in a win-lose conflict. Each side closes ranks and prepares itself for battle. Members show increased loyalty and support for their own groups. Minor differences between group members tend to be smoothed over, and deviants are dealt with harshly. The level of morale in the groups increases and infuses everyone with competitive spirit. The power structure becomes better defined, as the "real" [leaders](http://en.wikipedia.org/wiki/Leader) come to the surface and members rally around the "best" thinkers and talkers.[[5]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf3-4)

In addition, each group tends to distort both its own views and those of the competing group. What is perceived as "good" in one's own position is emphasized, what is "bad" is ignored; the position of the other group is assessed as uniformly "bad," with little "good" to be acknowledged or accepted. Thus, the judgment and objectivity of both groups are impaired. When such groups meet to "discuss" their differences, constructive, rational behavior is severely inhibited.[[6]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf4-5) Each side phrases its questions and answers in a way that strengthens its own position and disparages the other's. Hostility between the two groups increases; mutual understandings are buried in negative [stereotypes](http://en.wikipedia.org/wiki/Stereotype).

It is easy to see that under the conditions described above, mutual [solutions](http://en.wikipedia.org/wiki/Solution) to problems cannot be achieved. As a result, the side having the greater power wins; the other side loses. Or the conflict may go unresolved, and undesirable conditions or circumstances continue. Or the conflict may be settled by a higher authority.[[6]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf4-5)

None of these outcomes is a happy one. Disputes settled on the basis of power, such as through a strike or a lockout in a labor-management dispute, are often deeply resented by the loser. Such settlements may be resisted and the winner defeated in underground ways that are difficult to detect and to counter. When this happens, neither side wins; both are losers. If the conflict is left unresolved, as when both sides withdraw from the scene, intergroup cooperation and effectiveness may be seriously impaired to the detriment of the entire [organization](http://en.wikipedia.org/wiki/Organization). Disputes that are settled by higher authority also may cause resentment and what is called "lose-lose" consequences. Such settlements are invariably made on the basis of incomplete [information](http://en.wikipedia.org/wiki/Information) —without data that the conflict itself obscures — and therefore are poor substitutes for mutually reasoned solutions. Again, both sides have lost. A specific approach to resolving intergroup conflict is outlined in the next chapter on organization development.[[5]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-conf3-4)

Thus, [conflict](http://en.wiktionary.org/wiki/Conflict) affecting organizations can occur in [individuals](http://en.wikipedia.org/wiki/Individual), between individuals, and between groups. Conflicts within work groups are often caused by struggles over control, status, and scarce resources. Conflicts between groups in organizations have similar origins. The constructive [resolution](http://en.wikipedia.org/wiki/Conflict_resolution) of such conflicts can most often be achieved through a rational process of problem solving, coupled with a willingness to explore issues and alternatives and to listen to each other.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

Conflict is not always destructive, it may be a motivator. When it is destructive, however, managers need to understand and do something about it. A rational process for dealing with the conflict should be programmed. Such a process should include a planned action response on the part of the manager or the organization, rather than relying on a simple reaction or a change that occurs without specific action by management.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

## Conflict resolution

### Counseling

When personal conflict leads to frustration and loss of [efficiency](http://en.wikipedia.org/wiki/Economic_efficiency), [counseling](http://en.wikipedia.org/wiki/Counseling) may prove to be a helpful antidote. Although few [organizations](http://en.wikipedia.org/wiki/Organization) can afford the luxury of having professional counselors on the staff, given some training, managers may be able to perform this function. Nondirective counseling, or "listening with understanding", is little more than being a good listener — something every manager should be.[[4]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Knowles-3)

Sometimes the simple process of being able to vent one's feelings — that is, to express them to a concerned and understanding listener, is enough to relieve frustration and make it possible for the frustrated individual to advance to a problem-solving frame of mind, better able to cope with a personal difficulty that is affecting their work adversely. The nondirective approach is one effective way for managers to deal with frustrated subordinates and co-workers.

There are other more direct and more diagnostic ways that might be used in appropriate circumstances. The great strength of the nondirective approach (nondirective counseling is based on the client-centered therapy of Carl Rogers), however, lies in its simplicity, its effectiveness, and the fact that it deliberately avoids the manager-counselor's diagnosing and interpreting emotional problems, which would call for special psychological training. No one has ever been harmed by being listened to sympathetically and understandingly. On the contrary, this approach has helped many people to cope with problems that were interfering with their effectiveness on the job.[[1]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Johnson-0)

## Strategies for Managing Group Conflicts

* [Avoidance](http://en.wikipedia.org/wiki/Avoidance) - a management strategy which includes nonattention or creating a total separation of the combatants or a partial separation that allows limited interaction[[7]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Montana-6)
* [Smoothing](http://en.wikipedia.org/wiki/Smoothing) - technique which stresses the achievement of harmony between disputants[[7]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Montana-6)
* [Dominance or Power Intervention](http://en.wikipedia.org/w/index.php?title=Dominance_or_Power_Intervention&action=edit&redlink=1) - the imposition of a solution by higher management, other than the level at which the conflict exists[[7]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Montana-6)
* [Compromise](http://en.wikipedia.org/wiki/Compromise) - strategy that seeks a resolution which satisfies at least part of the each party's position[[7]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Montana-6)
* [Confrontation](http://en.wikipedia.org/wiki/Confrontation) - strategy featuring a thorough and frank discussion of the sources and types of conflict and achieving a resolution that is in the best interest of the group, but that may be at the expense of one or all of the conflicting parties [[7]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Montana-6)

A trained conflict resolver can begin with an economical intervention, such as getting group members to clarify and reaffirm shared goals. If necessary, they move through a systematic series of interventions, such as testing the members' ability and willingness to compromise; resorting to confrontation, enforced counseling, and/or termination as last resorts.[[8]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-7)

## Change

Management is presumed to be guided by a vision of the future. The manager reflects in their decision-making activities the values of the organization as they have developed through time, from the original founder-owner to the present top-management personnel. In navigating a path between the values of the organization and its objectives and goals, management has expectations concerning the organization's effectiveness and efficiency and frequently initiates changes within the organization. On other occasions, changes in the external environment — [market demand](http://en.wikipedia.org/wiki/Market_demand),[technology](http://en.wikipedia.org/wiki/Technology), or the political, social, or economic environment — require making appropriate changes in the activities of the [organization](http://en.wikipedia.org/wiki/Organization). The organization faces these demands for change through the men and women who make up its membership, since organizational change ultimately depends on the willingness of employees and others to change their attitudes, behavior, their degree of knowledge and skill, or a combination of these.[[9]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Clark-8)

### Personality change

In many contexts, the manager appears to be asking an employee to change their personality to conform to new requirements. This was the challenge that faced Freud as he used psychoanalysis in treating his patients, who had varying degrees of neurosis. The relationship between the psychoanalyst and their patient is one in which the individual seeking help is asked over a period of time to reach into their memory, and through free associations to communicate with the psychoanalyst about past incidents and events. The patient is peeling off layer after layer of experience stretching over a lifetime, with the support, understanding, and guidance of the psychoanalyst.[[9]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Clark-8)

As the patient unfolds their life story, they may reach a particular incident or event that may be a root cause of their problem in living a "normal" life. If such an event in their past took place in preverbal infancy or before, they may never be able to recall it. Nevertheless, the psychoanalytic relationship itself, because it involves a high degree of trust and confidence and an opportunity to admit to a sympathetic and understanding listener hidden anxieties and fears, may provide the therapeutic experience that is needed for the patient to decide that they have solved their problem. Though there are various theories of psychotherapy in addition to traditional Freudian psychoanalysis, the processes of therapy are often quite similar. In any case, changing an individual's personality is rarely possible in the short run. After all, it presumes changing the meaning that an individual has assigned to their life experiences. The Neo-Freudian point of view, however, assumes that an individual is amenable to personality change until they die, though any change must become increasingly difficult as the individual adds layer upon layer of experience as they move along life's path. Changing the core of an individual's personality within a "reasonable" time may offer little hope of success.[[9]](http://en.wikipedia.org/wiki/Organizational_conflict#cite_note-Clark-8)

Conflict management

**Conflict management** involves implementing strategies to limit the negative aspects of conflict and to increase the positive aspects of conflict at a level equal to or higher than where the conflict is taking place. Furthermore, the aim of conflict management is to enhance [learning](http://en.wikipedia.org/wiki/Learning) and group outcomes (effectiveness or performance in organizational setting) (Rahim, 2002, p. 208). It is not concerned with eliminating all conflict or avoiding conflict. Conflict can be valuable to groups and organizations. It has been shown to increase group outcomes when managed properly (e.g. Alper, Tjosvold, & Law, 2000; Bodtker& Jameson, 2001; Rahim &Bonoma, 1979; Khun& Poole, 2000; DeChurch& Marks, 2001).

Background

Supervisors spend more than 25% of their time on conflict management, and managers spend more than 18% of their time on relational employee conflicts. These figures have doubled since the mid 1980’s. Companies have distinguished some key factors as “the growing complexity of organizations, use of teams and group decision making, and globalization.” (Lang, 2009, p. 240) The United Kingdom’s Defense Department realized that the new concepts of threats are not the concern any more. It is the capability to deal with them that matters. (Fisher, 2010, p.429)

It is now becoming more evident that this is something that companies and managers need to recognize, and deal with. Conflict significantly affects employee morale, turnover, and litigation, which affects the prosperity of a company, either constructively or destructively. (Lang, 2009, p. 240) Turnover can cost a company 200% of the employee’s annual salary. (Maccoby& Scudder, p.48)

Definitions

**Conflict**

While no single definition of conflict exists, most definitions seem to involve the following factors: that there are at least two independent groups, the groups perceive some incompatibility between themselves, and the groups interact with each other in some way (Putnam and Poole, 1987). Two example definitions are, “process in which one party perceives that its interests are being opposed or negatively affected by another party" (Wall &Callister, 1995, p. 517), and “the interactive process manifested in incompatibility, disagreement, or dissonance within or between social entities” (Rahim, 1992, p. 16).

There are several causes of conflict. Conflict may occur when:

* A party is required to engage in an activity that is incongruent with his or her needs or interests.
* A party holds behavioral preferences, the satisfaction of which is incompatible with another person's implementation of his or her preferences.
* A party wants some mutually desirable resource that is in short supply, such that the wants of all parties involved may not be satisfied fully.
* A party possesses attitudes, values, skills, and goals that are salient in directing his or her behavior but are perceived to be exclusive of the attitudes, values, skills, and goals held by the other(s).
* Two parties have partially exclusive behavioral preferences regarding their joint actions.
* Two parties are interdependent in the performance of functions or activities.

(Rahim, 2002, p. 207)

**Substantive Vs. Affective**

The overarching hierarchy of conflict starts with a distinction between substantive (also called performance, task, issue, or active) conflict and [affective](http://en.wikipedia.org/wiki/Affective) (also called relationship or [the opposite of] agreeable) conflict. If one could make a distinction between good and bad conflict, substantive would be good and affective conflict would be bad. However, in a meta-analysis of the current research, De Drue and Weingart (2003) showed that these two concepts are related to each other (corrected correlation, ρ = .54).

Substantive conflict deals with disagreements among group members about the content of the tasks being performed or the performance itself (DeChurch& Marks, 2001; Jehn, 1995). This type of conflict occurs when two or more social entities disagree on the recognition and solution to a task problem, including differences in viewpoints, ideas, and opinions (Jehn, 1995; Rahim, 2002).

Affective conflict deals with interpersonal relationships or incompatibilities (Behfar, Peterson, Mannix, &Trochim, 2008). It is generated from emotions and frustration (Bodtker& Jameson, 2001), and has a detrimental impact on group or organizational outcomes (i.e. information processing ability, cognitive functioning of group members, attributions of group members' behavior, group loyalty, work group commitment, intent to stay in the present organization, and job satisfaction) (Amason, 1996; Baron, 1997; Jehn, 1995; Jehn et al., 1999; Wall & Nolan, 1986). Summarily stated, "relationship conflict interferes with task-related effort because members focus on reducing threats, increasing power, and attempting to build cohesion rather than working on tasks...The conflict causes members to be negative, irritable, suspicious, and resentful" (Jehn, 1997, pp. 531-532; c.f. Rahim, 2002, p. 210).

Thus, “[substantive] conflicts occur when group members argue over alternatives related to the group's task, whereas [affective] conflicts result over interpersonal clashes not directly related to achieving the group's function (Amason, 1996; Guetzhow&Gyr, 1954; Jehn, 1992; Pinkley, 1990; Priem& Price, 1991)” (c.f. DeChurch& Marks, 2001, p. 5).

In De Dreu and Weingart's 2003 meta-analysis, both substantive and affective conflict are negatively related to team member satisfaction (ρ = -.32; -.56, respectively). Additionally, substantive and affective conflict are negatively related to team performance (ρ = -.20; -.25, respectively). It is important to note that 20% (5 of 25) of the studies used showed a positive correlation between substantive conflict and task performance. These relationships show the severe negative impact that conflict can have on groups, and illustrate the importance of conflict management.

**Organizational and Interpersonal Conflict**

[Organizational conflict](http://en.wikipedia.org/wiki/Organizational_conflict), whether it be substantive or affective, can be divided into intraorganizational and interorganizational. Interorganizational conflict occurs between two or more organizations (Rahim, 2002). When different businesses are competing against one another, this is an example of interorganizational conflict Intraorganizational conflict is conflict within an organization, and can be examined based upon level (e.g. department, work team, individual), and can be classified as interpersonal, intragroup and intergroup. Interpersonal conflict--once again--whether it is substantive or affective, refers to conflict between two or more individuals (not representing the group they are a part of) of the same or different group at the same or different level, if in an organization. Interpersonal conflict can be divided into intragroup and intergroup conflict. While the former--intragroup--occurs between members of a group (or between subgroups within a group), the latter--intergroup--occurs between groups or units in an organization (Rahim, 2002).

Conflict Resolution Vs. Conflict Management

As the name would suggest, [conflict resolution](http://en.wikipedia.org/wiki/Conflict_resolution) involves the reduction, elimination, or termination of all forms and types of conflict. In practice, when people talk about [conflict resolution](http://en.wikipedia.org/wiki/Conflict_resolution) they tend to use terms like [negotiation](http://en.wikipedia.org/wiki/Negotiation), [bargaining](http://en.wikipedia.org/wiki/Bargaining), [mediation](http://en.wikipedia.org/wiki/Mediation), or [arbitration](http://en.wikipedia.org/wiki/Arbitration).

In line with the recommendations in the "how to" section, businesses can benefit from appropriate types and levels of conflict. That is the aim of conflict management, and not the aim of [conflict resolution](http://en.wikipedia.org/wiki/Conflict_resolution). Conflict management does not necessarily imply [conflict resolution](http://en.wikipedia.org/wiki/Conflict_resolution). “Conflict management involves designing effective macro-level strategies to minimize the dysfunctions of conflict and enhancing the constructive functions of conflict in order to enhance learning and effectiveness in an organization”(Rahim, 2002, p. 208). Learning is essential for the longevity of any group. This is especially true for organizations; [Organizational learning](http://en.wikipedia.org/wiki/Organizational_learning) is essential for any company to remain in the market. Properly managed conflict increases learning through increasing the degree to which groups ask questions and challenge the status quo (Luthans, Rubach, &Marsnik, 1995).

Models of Conflict Management

There have been many styles of conflict management behavior that have been researched in the past century. One of the earliest, [Mary Parker Follett](http://en.wikipedia.org/wiki/Mary_Parker_Follett) (1926/1940) found that conflict was managed by individuals in three main ways: domination, [compromise](http://en.wikipedia.org/wiki/Compromise), and integration. She also found other ways of handling conflict that were employed by organizations, such as [avoidance](http://en.wikipedia.org/wiki/Conflict_avoidance) and suppression.

**Early Conflict Management Models**

Blake and Mouton (1964) were among the first to present a conceptual scheme for classifying the modes (styles) for handling interpersonal conflicts into five types: forcing, withdrawing, smoothing, compromising, and problem solving.

In the 1970’s and 1980’s, researchers began using the intentions of the parties involved to classify the styles of conflict management that they would include in their models. Both Thomas (1976) and Pruitt (1983) put forth a model based on the concerns of the parties involved in the conflict. The combination of the parties concern for their own interests (i.e. [assertiveness](http://en.wikipedia.org/wiki/Assertiveness)) and their concern for the interests of those across the table (i.e. [cooperativeness](http://en.wikipedia.org/wiki/Cooperation)) would yield a particular conflict management style. Pruitt called these styles yielding (low assertiveness/high cooperativeness), problem solving (high assertiveness/high cooperativeness), inaction (low assertiveness/low cooperativeness), and contending (high assertiveness/low cooperativeness). Pruitt argues that problem-solving is the preferred method when seeking mutually beneficial options.

**Khun and Poole’s Model**

Khun and Poole (2000) established a similar system of group conflict management. In their system, they split Kozan’s confrontational model into two sub models: distributive and integrative.

* Distributive - Here conflict is approached as a distribution of a fixed amount of positive outcomes or resources, where one side will end up winning and the other losing, even if they do win some concessions.
* Integrative - Groups utilizing the integrative model see conflict as a chance to integrate the needs and concerns of both groups and make the best outcome possible. This model has a heavier emphasis on compromise than the distributive model. Khun and Poole found that the integrative model resulted in consistently better task related outcomes than those using the distributive model.

**DeChurch and Marks’s Meta-Taxonomy**

DeChurch and Marks (2001) examined the literature available on conflict management at the time and established what they claimed was a "meta-taxonomy" that encompasses all other models. They argued that all other styles have inherent in them into two dimensions - activeness ("the extent to which conflict behaviors make a responsive and direct rather than inert and indirect impression") and agreeableness ("the extent to which conflict behaviors make a pleasant and relaxed rather than unpleasant and strainful impression"). High activeness is characterized by openly discussing differences of opinion while fully going after their own interest. High agreeableness is characterized by attempting to satisfy all parties involved

In the study they conducted to validate this division, activeness did not have a significant effect on the effectiveness of [conflict resolution](http://en.wikipedia.org/wiki/Conflict_resolution), but the [agreeableness](http://en.wikipedia.org/wiki/Agreeableness) of the conflict management style, whatever it was, did in fact have a positive impact on how groups felt about the way the conflict was managed, regardless of the outcome.

**Rahim's meta model**

Rahim (2002) noted that there is agreement among management scholars that there is no one best approach to how to make decisions, lead or manage conflict. In a similar vein, rather than creating a very specific model of conflict management, Rahim created a meta-model (in much the same way that DeChurch and Marks, 2001, created a meta-taxonomy) for conflict styles based on two dimensions, concern for self and concern for others (as shown in Figure 2).

Within this framework are five management approaches: integrating, obliging, dominating, avoiding, and compromising. Integration involves openness, exchanging information, looking for alternatives, and examining differences so solve the problem in a manner that is acceptable to both parties. Obliging is associated with attempting to minimize the differences and highlight the commonalities to satisfy the concern of the other party. When using the dominating style one party goes all out to win his or her objective and, as a result, often ignores the needs and expectations of the other party. When avoiding a party fails to satisfy his or her own concern as well as the concern of the other party. Lastly, compromising involves give-and-take whereby both parties give up something to make a mutually acceptable decision. (Rahim, 2002).

How to manage conflict

Overall conflict management should aim to minimize [affective](http://en.wikipedia.org/wiki/Affective) conflicts at all levels, attain and maintain a moderate amount of substantive conflict, and use the appropriate conflict management strategy--to effectively bring about the first two goals, and also to match the status and concerns of the two parties in conflict (Rahim, 2002).

In order for conflict management strategies to be effective, they should satisfy certain criteria. The below criteria are particularly useful for not only conflict management, but also [decision making](http://en.wikipedia.org/wiki/Decision_making)in [management](http://en.wikipedia.org/wiki/Management).

* Organization Learning and Effectiveness- In order to attain this objective, conflict management strategies should be designed to enhance critical and innovative thinking to learn the process of diagnosis and intervention in the right problems.
* Needs of Stakeholders- Sometimes multiple parties are involved in a conflict in an organization and the challenge of conflict management would be to involve these parties in a problem solving process that will lead to collective learning and organizational effectiveness. organizations should institutionalize the positions of employee advocate, customer and supplier advocate, as well as environmental and stockholder advocates.
* Ethics - A wise leader must behave ethically, and to do so the leader should be open to new information and be willing to change his or her mind. By the same token subordinates and other stakeholders have an ethical duty to speak out against the decisions of supervisors when consequences of these decisions are likely to be serious. “Without an understanding of ethics, conflict cannot be handled” (Batcheldor, 2000).

**Steps to Manage**

The first step is reactionary by assessing and reacting to the conflict. The second step is proactive by determining how the employee reacted to the decision. The manager tries to take (create) a new approach, and once again tries to discern how the employee reacts. Once the manager feels that the best decision for the organization has been chosen, and the employee feels justified, then the manager decides if this is a single case conflict, or one that should be written as policy. The entire process starts as a reactive situation but then moves towards a proactive decision. It is based on obtaining an outcome that best fits the organization, but emphasizes the perception of justice for the employee. The chart below shows the interaction of the procedures.

Maccoby and Studder identify five steps to managing conflict.

1. Anticipate – Take time to obtain information that can lead to conflict.
2. Prevent – Develop strategies before the conflict occurs.
3. Identify – If it is interpersonal or procedural, move to quickly manage it.
4. Manage – Remember that conflict is emotional
5. Resolve – React, without blame, and you will learn through dialogue.

(Maccoby&Studder, p.50)

Melissa Taylor’s research on Locus of Control is directly related to individual abilities of communication, especially as it pertains to interpersonal conflict. She also states that conflicts should be solution driven which are creative and integrative. They should be non-confrontational, and they should still maintain control, utilizing non-verbal messages to achieve the outcome.(Taylor, p. 449)

Rahim, Antonioni, and Psenicka’s 2001 article deals with two types of leaders. Those that have concern for themselves, and those that have concern for others. (Rahim, Antonioni &Psenicka, 2001, p.195)

They also have degrees of conflict management style.

1. Integrating involves opening up, creating dialogue, and exploring differences to choose an effective solution for both groups. “This style is positively associated with individual and organizational outcomes.” (Rahim et al., p. 197)
2. Obliging tries to find the same interests of the parties, while trying to minimize the true feeling of the conflict, to satisfy the other party.
3. Dominating is a coercive manager who forces their own way.
4. Avoiding is ignoring the problem in hopes that it will go away.
5. Compromising is a manger that is willing to make concessions and the employee makes concessions for a mutual agreement. (Rahim et al., p.196)

The avoiding and dominating styles are considered ineffective in management. The following chart shows the interaction between the styles. (Rahim et al., p. 196)

International Conflict Management

Special consideration should be paid to conflict management between two parties from distinct cultures. In addition to the everyday sources of conflict, "misunderstandings, and from this counterproductive, pseudo conflicts, arise when members of one culture are unable to understand culturally determined differences in communication practices, traditions, and thought processing" (Borisoff& Victor, 1989).

Indeed, this has already been observed in the business research literature. Renner (2007) recounted several episodes where managers from developed countries moved to less developed countries to resolve conflicts within the company and met with little success due to their failure to adapt to the conflict management styles of the local culture.

As an example, in Kozan’s study noted above, he noted that Asian cultures are far more likely to use a harmony model of conflict management. If a party operating from a harmony model comes in conflict with a party using a more confrontational model, misunderstandings above and beyond those generated by the conflict itself will arise.

International conflict management, and the cultural issues associated with it, is one of the primary areas of research in the field at the time, as existing research is insufficient to deal with the ever increasing contact occurring between international entities.

# Negotiation

**Negotiation** is a [dialogue](http://en.wikipedia.org/wiki/Dialogue) between two or more people or parties, intended to reach an understanding, resolve point of difference, or gain advantage in outcome of dialogue, to produce an agreement upon courses of action, to bargain for individual or [collective advantage](http://en.wikipedia.org/wiki/Collective_bargaining), to craft outcomes to satisfy various interests of two people/parties involved in negotiation process. Negotiation is a process where each party involved in negotiating tries to gain an advantage for themselves by the end of the process. Negotiation is intended to aim at [compromise](http://en.wikipedia.org/wiki/Compromise).

Negotiation occurs in business, non-profit organizations, government branches, legal proceedings, among nations and in personal situations such as marriage, divorce, parenting, and everyday life. The study of the subject is called [*negotiation theory*](http://en.wikipedia.org/wiki/Negotiation_theory). Professional negotiators are often specialized, such as *union negotiators*, *leverage buyout negotiators*, *peace negotiators*, *hostage negotiators*, or may work under other titles, such as [diplomats](http://en.wikipedia.org/wiki/Diplomats), [legislators](http://en.wikipedia.org/wiki/Legislators) or [brokers](http://en.wikipedia.org/wiki/Brokers).

## Approaches to negotiation

Negotiation typically manifests itself with a trained negotiator acting on behalf of a particular organization or position. It can be compared to [mediation](http://en.wikipedia.org/wiki/Mediation) where a neutral third party listens to each side's arguments and attempts to help craft an agreement between the parties. It is also related to [arbitration](http://en.wikipedia.org/wiki/Arbitration) which, as with a legal proceeding, both sides make an argument as to the merits of their "case" and then the arbitrator decides the outcome for both parties. There are two opposite types of negotiation: Integrative and Distributive.

### Distributive Negotiation

The term distributive means; there is a giving out; or the scattering of things. By its mere nature, there is a limit or finite amount in the thing being distributed or divided amongst the people involved. Hence, this type of negotiation is often referred to as 'The Fixed Pie'. There is only so much to go around, but the proportion to be distributed is limited but also variable. A distributive negotiation usually involves people who have never had a previous interactive relationship, nor are they likely to do so again in the near future. Simple everyday examples would be buying a car or a house.

### Integrative negotiation

The word integrative means to join several parts into a whole. Conceptually, this implies some cooperation, or a joining of forces to achieve something together. Usually involves a higher degree of trust and a forming of a relationship. Both parties want to walk away feeling they've achieved something which has value by getting what each wants. Ideally, it is a twofold process. Integrative negotiation process generally involves some form or combination of making value for value concessions, in conjunction with creative problem solving. Generally, this form of negotiation is looking down the road, to them forming a long term relationship to create mutual gain. It is often described as the win-win scenario.

There are many different ways to segment negotiation to gain a greater understanding of the essential parts. One view of negotiation involves three basic elements: *process*, *behavior* and*substance*. The process refers to how the parties negotiate: the context of the negotiations, the parties to the negotiations, the tactics used by the parties, and the sequence and stages in which all of these play out. Behavior refers to the relationships among these parties, the communication between them and the styles they adopt. The substance refers to what the parties negotiate over: the agenda, the issues (positions and - more helpfully - interests), the options, and the agreement(s) reached at the end.

Another view of negotiation comprises 4 elements: *strategy*, *process* and *tools*, and *tactics*. Strategy comprises the top level goals - typically including relationship and the final outcome. Processes and tools include the steps that will be followed and the roles taken in both preparing for and negotiating with the other parties. Tactics include more detailed statements and actions and responses to others' statements and actions. Some add to this *persuasion and influence*, asserting that these have become integral to modern day negotiation success, and so should not be omitted.

Skilled negotiators may use a variety of tactics ranging from negotiation hypnosis, to a straight forward presentation of demands or setting of preconditions to more deceptive approaches such as[cherry picking](http://en.wikipedia.org/wiki/Cherry_picking_(fallacy)). Intimidation and [salami tactics](http://en.wikipedia.org/wiki/Salami_tactics) may also play a part in swaying the outcome of negotiations.

Another negotiation tactic is bad guy/good guy. Bad guy/good guy tactic is when one negotiator acts as a bad guy by using anger and threats. The other negotiator acts as a good guy by being considerate and understanding. The good guy blames the bad guy for all the difficulties while trying to get concessions and agreement from the opponent.[[1]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Churchman_1993-0)

When a party pretends to negotiate, but secretly has no intention of compromising, the negotiator is considered to be negotiating in [bad faith](http://en.wikipedia.org/wiki/Bad_faith).

### The advocate's approach

In the advocacy approach, a skilled negotiator usually serves as advocate for one party to the negotiation and attempts to obtain the most favorable outcomes possible for that party. In this process the negotiator attempts to determine the minimum outcome(s) the other party is (or parties are) willing to accept, then adjusts their demands accordingly. A "successful" negotiation in the advocacy approach is when the negotiator is able to obtain all or most of the outcomes their party desires, but without driving the other party to permanently break off negotiations, unless the[best alternative to a negotiated agreement](http://en.wikipedia.org/wiki/Best_alternative_to_a_negotiated_agreement) (BATNA) is acceptable.

Traditional negotiating is sometimes called *win-lose* because of the assumption of a fixed "pie", that one person's gain results in another person's loss. This is not true, however, unless only one issue needs to be resolved, such as a price in a simple sales negotiation.

[*Getting to YES*](http://en.wikipedia.org/wiki/Getting_to_YES) was published by [Roger Fisher](http://en.wikipedia.org/wiki/Roger_Fisher_(academic)) and [William Ury](http://en.wikipedia.org/w/index.php?title=William_Ury&action=edit&redlink=1) as part of the [Harvard](http://en.wikipedia.org/wiki/Harvard) negotiation project. The book's approach, referred to as Principled Negotiation, is also sometimes called[mutual gains bargaining](http://en.wikipedia.org/wiki/Mutual_gains_bargaining). The [Mutual Gains Approach](http://en.wikipedia.org/wiki/Mutual_Gains_Approach) has been effectively applied in environmental situations (see [Lawrence Susskind](http://en.wikipedia.org/wiki/Lawrence_Susskind) and [AdilNajam](http://en.wikipedia.org/wiki/Adil_Najam)) as well as [labor relations](http://en.wikipedia.org/wiki/Labor_relations) where the parties (such as [management](http://en.wikipedia.org/wiki/Management) and a [labor union](http://en.wikipedia.org/wiki/Trade_union)) frame the negotiation as "problem solving". If multiple issues are discussed, differences in the parties' preferences make win-win negotiation possible. For example, in a labor negotiation, the union might prefer job security over wage gains.

If the employers have opposite preferences, a trade is possible that is beneficial to both parties. Such a negotiation is therefore not an adversarial [zero-sum](http://en.wikipedia.org/wiki/Zero-sum) game. Principled Negotiation method consists of four main steps: separating the people from the problem, focus on interests, not positions, generating a variety of possibilities before deciding what to do and insisting that the result be based on some objective standard.[[2]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Roger_Fisher_1991-1)

There are a tremendous number of other scholars who have contributed to the field of negotiation, including [Holly Schroth](http://en.wikipedia.org/w/index.php?title=Holly_Schroth&action=edit&redlink=1) and [Timothy Dayonot](http://en.wikipedia.org/w/index.php?title=Timothy_Dayonot&action=edit&redlink=1) at UC Berkeley, [Gerard E. Watzke](http://en.wikipedia.org/w/index.php?title=Gerard_E._Watzke&action=edit&redlink=1) at Tulane University, [Sara Cobb](http://en.wikipedia.org/w/index.php?title=Sara_Cobb&action=edit&redlink=1) at George Mason University, [Len Riskin](http://en.wikipedia.org/w/index.php?title=Len_Riskin&action=edit&redlink=1) at the University of Missouri, [Howard Raiffa](http://en.wikipedia.org/wiki/Howard_Raiffa) at Harvard, [Robert McKersie](http://en.wikipedia.org/w/index.php?title=Robert_McKersie&action=edit&redlink=1) and [Lawrence Susskind](http://en.wikipedia.org/wiki/Lawrence_Susskind) at MIT, and [AdilNajam](http://en.wikipedia.org/wiki/Adil_Najam) and[JeswaldSalacuse](http://en.wikipedia.org/w/index.php?title=Jeswald_Salacuse&action=edit&redlink=1) at The Fletcher School of Law and Diplomacy.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]and John D. Males.

### Other negotiation styles

Shell identified five styles/responses to negotiation.[[3]](http://en.wikipedia.org/wiki/Negotiation#cite_note-2) Individuals can often have strong dispositions towards numerous styles; the style used during a negotiation depends on the context and the interests of the other party, among other factors. In addition, styles can change over time.

1. **Accommodating**: Individuals who enjoy solving the other party’s problems and preserving personal relationships. Accommodators are sensitive to the emotional states, body language, and verbal signals of the other parties. They can, however, feel taken advantage of in situations when the other party places little emphasis on the relationship.
2. **Avoiding**: Individuals who do not like to negotiate and don’t do it unless warranted. When negotiating, avoiders tend to defer and dodge the confrontational aspects of negotiating; however, they may be perceived as tactful and diplomatic.
3. **Collaborating**: Individuals who enjoy negotiations that involve solving tough problems in creative ways. Collaborators are good at using negotiations to understand the concerns and interests of the other parties. They can, however, create problems by transforming simple situations into more complex ones.
4. **Competing**: Individuals who enjoy negotiations because they present an opportunity to win something. Competitive negotiators have strong instincts for all aspects of negotiating and are often strategic. Because their style can dominate the bargaining process, competitive negotiators often neglect the importance of relationships.
5. **Compromising**: Individuals who are eager to close the deal by doing what is fair and equal for all parties involved in the negotiation. Compromisers can be useful when there is limited time to complete the deal; however, compromisers often unnecessarily rush the negotiation process and make concessions too quickly.

### Adversary or Partner?

Clearly, these two basically different ways of negotiating will require different approaches. To ignore this can be devastating for the result, but it all too often happens. Because in the distributive approach each negotiator is battling for the largest possible piece of the pie, it may be quite appropriate - within certain limits - to regard the other side more as an adversary than a partner and to take a somewhat harder line. This would however be less appropriate if the idea were to hammer out an arrangement that is in the best interest of both sides. If both win, it's only of secondary importance which one has the greater advantage. A good agreement is not one with maximum gain, but optimum gain. This does not by any means suggest that we should give up our own advantage for nothing. But a cooperative attitude will regularly pay dividends. What is gained is not at the expense of the other, but with him.[[4]](http://en.wikipedia.org/wiki/Negotiation#cite_note-3)

### Bad faith negotiation

[Bad faith](http://en.wikipedia.org/wiki/Bad_faith) is a concept in negotiation theory whereby parties pretend to reason to reach settlement, but have no intention to do so, for example, one political party may pretend to negotiate, with no intention to compromise, for political effect.[[5]](http://en.wikipedia.org/wiki/Negotiation#cite_note-4)[[6]](http://en.wikipedia.org/wiki/Negotiation#cite_note-5)

Bad faith in [political science](http://en.wikipedia.org/wiki/Political_science) and [political psychology](http://en.wikipedia.org/wiki/Political_psychology) refers to negotiating strategies in which there is no real intention to reach compromise, or a model of[information processing](http://en.wikipedia.org/wiki/Information_processing).[[11]](http://en.wikipedia.org/wiki/Bad_faith#cite_note-oxforddictionaries.com-10) The "[inherent bad faith model](http://en.wikipedia.org/wiki/Inherent_bad_faith_model)" of information processing is a theory in political psychology that was first put forth by [Ole Holsti](http://en.wikipedia.org/wiki/Ole_Holsti) to explain the relationship between U.S. Secretary of State [John Foster Dulles](http://en.wikipedia.org/wiki/John_Foster_Dulles)’ beliefs and his model of information processing.[[78]](http://en.wikipedia.org/wiki/Bad_faith#cite_note-77) It is the most widely studied model of one's opponent.[[79]](http://en.wikipedia.org/wiki/Bad_faith#cite_note-HSP-78) A state is presumed to be implacably hostile, and contra-indicators of this are ignored. They are dismissed as propaganda ploys or signs of weakness. Examples are John Foster Dulles’ position regarding the Soviet Union, or Israel’s initial position on the [Palestinian Liberation Organization](http://en.wikipedia.org/wiki/Palestinian_Liberation_Organization).[[79]](http://en.wikipedia.org/wiki/Bad_faith#cite_note-HSP-78)

#### Inherent bad faith model in international relations and political psychology

Bad faith in [political science](http://en.wikipedia.org/wiki/Political_science) and [political psychology](http://en.wikipedia.org/wiki/Political_psychology) refers to negotiating strategies in which there is no real intention to reach compromise, or a model of [information processing](http://en.wikipedia.org/wiki/Information_processing).[[7]](http://en.wikipedia.org/wiki/Negotiation#cite_note-6) The "[inherent bad faith model](http://en.wikipedia.org/wiki/Inherent_bad_faith_model)" of information processing is a theory in political psychology that was first put forth by [Ole Holsti](http://en.wikipedia.org/wiki/Ole_Holsti) to explain the relationship between [John Foster Dulles](http://en.wikipedia.org/wiki/John_Foster_Dulles)’ beliefs and his model of information processing.[[8]](http://en.wikipedia.org/wiki/Negotiation#cite_note-7) It is the most widely studied model of one's opponent.[[9]](http://en.wikipedia.org/wiki/Negotiation#cite_note-8) A state is presumed to be implacably hostile, and contra-indicators of this are ignored. They are dismissed as propaganda ploys or signs of weakness. Examples are [John Foster Dulles](http://en.wikipedia.org/wiki/John_Foster_Dulles)’ position regarding the Soviet Union, or [Hamas](http://en.wikipedia.org/wiki/Hamas)'s position on the state of [Israel](http://en.wikipedia.org/wiki/Israel).[[10]](http://en.wikipedia.org/wiki/Negotiation#cite_note-9)[[*neutrality*](http://en.wikipedia.org/wiki/Wikipedia:Neutral_point_of_view)*is*[*disputed*](http://en.wikipedia.org/wiki/Talk:Negotiation)]

## Emotion in negotiation

[Emotions](http://en.wikipedia.org/wiki/Emotion) play an important part in the negotiation process, although it is only in recent years that their effect is being studied. Emotions have the potential to play either a positive or negative role in negotiation. During negotiations, the decision as to whether or not to settle, rests in part on emotional factors. Negative emotions can cause intense and even irrational behavior, and can cause conflicts to escalate and negotiations to break down, but may be instrumental in attaining concessions. On the other hand, positive emotions often facilitate reaching an agreement and help to maximize joint gains, but can also be instrumental in attaining concessions. Positive and negative discrete emotions can be strategically displayed to influence task and relational outcomes [[11]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Kopelman.2C_Rosette.2C_.26_Thompson.2C_2006-10)and may play out differently across cultural boundaries.[[12]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Kopelman_.26_Rosette_2008-11)

### Affect effect

[Dispositional affects](http://en.wikipedia.org/wiki/Dispositional_Affect) affect the various stages of the negotiation process: which strategies are planned to be used, which strategies are actually chosen,[[13]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Forgas_1998-12) the way the other party and his or her intentions are perceived,[[14]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Van_Kleef_2006-13) their willingness to reach an agreement and the final negotiated outcomes.[[15]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Butt_2005-14) Positive affectivity (PA) and negative affectivity (NA) of one or more of the negotiating sides can lead to very different outcomes.

### Positive affect in negotiation

Even before the negotiation process starts, people in a positive mood have more confidence,[[16]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Kramer_1993-15) and higher tendencies to plan to use a cooperative strategy.[[13]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Forgas_1998-12) During the negotiation, negotiators who are in a positive mood tend to enjoy the interaction more, show less contentious behavior, use less aggressive tactics[[17]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Maiese-16) and more cooperative strategies.[[13]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Forgas_1998-12) This in turn increases the likelihood that parties will reach their instrumental goals, and enhance the ability to find integrative gains.[[18]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Carnevale_1986-17) Indeed, compared with negotiators with negative or natural affectivity, negotiators with positive affectivity reached more agreements and tended to honor those agreements more.[[13]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Forgas_1998-12) Those favorable outcomes are due to better [decision making](http://en.wikipedia.org/wiki/Decision_making) processes, such as flexible thinking, creative [problem solving](http://en.wikipedia.org/wiki/Problem_solving), respect for others' perspectives, willingness to take risks and higher confidence.[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18) Post negotiation positive affect has beneficial consequences as well. It increases satisfaction with achieved outcome and influences one's desire for future interactions.[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18) The PA aroused by reaching an agreement facilitates the dyadic relationship, which result in affective commitment that sets the stage for subsequent interactions.[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18)  
PA also has its drawbacks: it distorts perception of self-performance, such that performance is judged to be relatively better than it actually is.[[16]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Kramer_1993-15) Thus, studies involving self-reports on achieved outcomes might be biased.

### Negative affect in negotiation

Negative affect has detrimental effects on various stages in the negotiation process. Although various negative emotions affect negotiation outcomes, by far the most researched is [anger](http://en.wikipedia.org/wiki/Anger). Angry negotiators plan to use more competitive strategies and to cooperate less, even before the negotiation starts.[[13]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Forgas_1998-12) These competitive strategies are related to reduced joint outcomes. During negotiations, anger disrupts the process by reducing the level of trust, clouding parties' judgment, narrowing parties' focus of attention and changing their central goal from reaching agreement to retaliating against the other side.[[17]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Maiese-16) Angry negotiators pay less attention to opponent’s interests and are less accurate in judging their interests, thus achieve lower joint gains.[[20]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Allred_1997-19) Moreover, because anger makes negotiators more self-centered in their preferences, it increases the likelihood that they will reject profitable offers.[[17]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Maiese-16) Opponents who really get angry (or cry, or otherwise lose control) are more likely to make errors: make sure they are in your favor.[[1]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Churchman_1993-0) Anger does not help in achieving negotiation goals either: it reduces joint gains[[13]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Forgas_1998-12) and does not help to boost personal gains, as angry negotiators do not succeed in claiming more for themselves.[[20]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Allred_1997-19) Moreover, negative emotions lead to acceptance of settlements that are not in the positive [utility function](http://en.wikipedia.org/wiki/Utility#Utility_functions)but rather have a negative [utility](http://en.wikipedia.org/wiki/Utility).[[21]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Davidson_1999-20) However, expression of negative emotions during negotiation can sometimes be beneficial: legitimately expressed anger can be an effective way to show one's commitment, sincerity, and needs.[[17]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Maiese-16) Moreover, although NA reduces gains in integrative tasks, it is a better strategy than PA in distributive tasks (such as [zero-sum](http://en.wikipedia.org/wiki/Zero-sum)).[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18) In his work on negative affect arousal and white noise, Seidner found support for the existence of a negative affect arousal mechanism through observations regarding the devaluation of speakers from other ethnic origins." Negotiation may be negatively affected, in turn, by submerged hostility toward an ethnic or gender group.[[22]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Seid1991-21)

### Conditions for emotion affect in negotiation

Research indicates that negotiator’s emotions do not necessarily affect the negotiation process. Albarracın et al. (2003) suggested that there are two conditions for emotional affect, both related to the ability (presence of environmental or cognitive disturbances) and the motivation:

1. Identification of the affect: requires high motivation, high ability or both.
2. Determination that the affect is relevant and important for the judgment: requires that either the motivation, the ability or both are low.

According to this model, emotions are expected to affect negotiations only when one is high and the other is low. When both ability and motivation are low the affect will not be identified, and when both are high the affect will be identify but discounted as irrelevant for judgment.[[23]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Albarrac.C4.B1n_2003-22) A possible implication of this model is, for example, that the positive effects PA has on negotiations (as described above) will be seen only when either motivation or ability are low.

### The effect of the partner’s emotions

Most studies on emotion in negotiations focus on the effect of the negotiator’s own emotions on the process. However, what the other party feels might be just as important, as [group emotions](http://en.wikipedia.org/wiki/Group_Emotion) are known to affect processes both at the group and the personal levels. When it comes to negotiations, trust in the other party is a necessary condition for its emotion to affect,[[14]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Van_Kleef_2006-13) and visibility enhances the effect.[[18]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Carnevale_1986-17) Emotions contribute to negotiation processes by signaling what one feels and thinks and can thus prevent the other party from engaging in destructive behaviors and to indicate what steps should be taken next: PA signals to keep in the same way, while NA points that mental or behavioral adjustments are needed.[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18)  
Partner’s emotions can have two basic effects on negotiator’s emotions and behavior: mimetic/ reciprocal or complementary.[[15]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Butt_2005-14) For example, [disappointment](http://en.wikipedia.org/wiki/Disappointment) or [sadness](http://en.wikipedia.org/wiki/Sadness) might lead to[compassion](http://en.wikipedia.org/wiki/Compassion) and more cooperation.[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18) In a study by Butt et al. (2005) which simulated real multi-phase negotiation, most people reacted to the partner’s emotions in reciprocal, rather than complementary, manner. Specific emotions were found to have different effects on the opponent’s feelings and strategies chosen:

* **Anger** caused the opponents to place lower demands and to concede more in a [zero-sum](http://en.wikipedia.org/wiki/Zero-sum) negotiation, but also to evaluate the negotiation less favorably.[[24]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Van_Kleef_2004-23) It provoked both dominating and yielding behaviors of the opponent.[[15]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Butt_2005-14)
* [**Pride**](http://en.wikipedia.org/wiki/Pride) led to more integrative and compromise strategies by the partner.[[15]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Butt_2005-14)
* [**Guilt**](http://en.wikipedia.org/wiki/Guilt) or [**regret**](http://en.wikipedia.org/wiki/Regret_(emotion)) expressed by the negotiator led to better impression of him by the opponent, however it also led the opponent to place higher demands.[[14]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Van_Kleef_2006-13) On the other hand, personal guilt was related to more satisfaction with what one achieved.[[19]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Barry_2004-18)
* [**Worry**](http://en.wikipedia.org/wiki/Worry) or **disappointment** left bad impression on the opponent, but led to relatively lower demands by the opponent.[[14]](http://en.wikipedia.org/wiki/Negotiation#cite_note-Van_Kleef_2006-13)

## Team negotiations

Due to globalization and growing business trends, negotiation in the form of teams is becoming widely adopted. Teams can effectively collaborate to break down a complex negotiation. There is more knowledge and wisdom dispersed in a team than in a single mind. Writing, listening, and talking, are specific roles team members must satisfy. The capacity base of a team reduces the amount of blunder, and increases familiarity in a negotiation.[[26]](http://en.wikipedia.org/wiki/Negotiation#cite_note-25)

## Barriers to negotiations

* Die hard bargainers.
* Lack of trust.
* Informational vacuums and negotiator's dilemma.
* Structural impediments.
* Spoilers.
* Cultural and gender differences.
* Communication problems.
* The power of dialogue.

[[27]](http://en.wikipedia.org/wiki/Negotiation#cite_note-26)

## Negotiation tactics

## Download free Tactics Manual - 30 High Power Negotiation Tactics[here](http://www.negotiationeurope.com/products/free-negotiation-tactics-manual.html).

# Best alternative to a negotiated agreement

In [negotiation](http://en.wikipedia.org/wiki/Negotiation) theory, the **best alternative to a negotiated**[**agreement**](http://en.wikipedia.org/wiki/Contract) or **BATNA** is the course of action that will be taken by a party if the current negotiations fail and an agreement cannot be reached. BATNA is the key focus and the driving force behind a successful negotiator. BATNA should not be confused with the reservation point or walkaway point. A party should generally not accept a worse resolution than its BATNA. Care should be taken, however, to ensure that deals are accurately valued, taking into account all considerations, such as relationship value, [time value of money](http://en.wikipedia.org/wiki/Time_value_of_money) and the likelihood that the other party will live up to their side of the bargain. These other considerations are often difficult to value, since they are frequently based on uncertain or qualitative considerations, rather than easily measurable and quantifiable factors.

The BATNA is often seen by negotiators not as a safety net, but rather as a point of leverage in negotiations. Although a negotiator's alternative options should, in theory, be straightforward to evaluate, the effort to understand which alternative represents a party's BATNA is often not invested. Options need to be real and actionable to be of value,[[1]](http://en.wikipedia.org/wiki/Best_alternative_to_a_negotiated_agreement#cite_note-0) however without the investment of time, options will frequently be included that fail on one of these criteria.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Most managers overestimate their BATNA whilst simultaneously investing too little time into researching their real options.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] This can result in poor or faulty decision making and negotiating outcomes. Negotiatiors also need to be aware of the other negotiator's BATNA and to identify how it compares to what they are offering[[2]](http://en.wikipedia.org/wiki/Best_alternative_to_a_negotiated_agreement#cite_note-1).

BATNA was developed by negotiation researchers [Roger Fisher](http://en.wikipedia.org/wiki/Roger_Fisher_(academic)) and William Ury of the Harvard Program on Negotiation (PON), in their series of books on [Principled negotiation](http://en.wikipedia.org/wiki/Principled_negotiation) that started with[*Getting to YES*](http://en.wikipedia.org/wiki/Getting_to_YES), unwittingly duplicating a game theoretic concept pioneered by [Nobel Laureate](http://en.wikipedia.org/wiki/Nobel_Laureate) [John Forbes Nash](http://en.wikipedia.org/wiki/John_Forbes_Nash) decades earlier in his early undergraduate research.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

## Examples

The following examples illustrate the basic principles of identifying the BATNA and how to use it in further negotiations to help value other offers.

### Selling a car

If the seller of a car has a written offer from a dealership to buy the seller's car for $1,000, then the seller's BATNA when dealing with other potential purchasers would be $1,000 since the seller can get $1,000 for the car even without reaching an agreement with such alternative purchaser.

In this example, other offers that illustrate the difficulty of valuing qualitative factors might include:

* An offer of $900 by a close relative
* An offer of $1,100 in 45 days (what are the chances of this future commitment falling through, and would the seller's prior BATNA (the $1000 offer from the dealership) still be available if it did?)
* An offer from another dealer to offset $1,500 against the price of a new car (does the seller want to buy a new car right now, and the offered car in particular?)

### Purchasing

Buyers are often able to leverage their BATNA with regards to prices. This is done through buying from the lowest cost or best value seller.

## Getting and keeping job

# Job hunting

**Job hunting**, **job seeking**, or **job searching** is the act of looking for [employment](http://en.wikipedia.org/wiki/Employment), due to [unemployment](http://en.wikipedia.org/wiki/Unemployment) or discontent with a current position. The immediate goal of job seeking is usually to obtain a [job interview](http://en.wikipedia.org/wiki/Job_interview) with an [employer](http://en.wikipedia.org/wiki/Employer) which may lead to getting [hired](http://en.wikipedia.org/wiki/Recruitment). The job hunter or seeker typically first looks for job vacancies or employment opportunities.

## Steps

### Locating jobs

Common methods of job hunting are:

* Finding a job through a friend or an extended [business network](http://en.wikipedia.org/wiki/Business_networking), [personal network](http://en.wikipedia.org/wiki/Personal_Network), or online [social network service](http://en.wikipedia.org/wiki/Social_network_service)
* Using an [employment website](http://en.wikipedia.org/wiki/Employment_website)
* Looking through the [classifieds](http://en.wikipedia.org/wiki/Classified_advertising) in [newspapers](http://en.wikipedia.org/wiki/Newspaper)
* Using a private or public [employment agency](http://en.wikipedia.org/wiki/Employment_agency) or [recruiter](http://en.wikipedia.org/wiki/Recruiter)
* Looking on a company's web site for open jobs, typically in its [applicant tracking system](http://en.wikipedia.org/wiki/Applicant_tracking_system)
* Going to a [job fair](http://en.wikipedia.org/wiki/Job_fair)
* Using professional guidance such as [outplacement](http://en.wikipedia.org/wiki/Outplacement) services that give training in writing a résumé, applying for jobs and how to be successful at interview.

As of 2010, less than 10% of U.S. jobs are filled through online ads.[[1]](http://en.wikipedia.org/wiki/Job_hunting#cite_note-0)

### Researching the employers

Many job seekers research the employers to which they are applying, and some employers see evidence of this as a positive sign of enthusiasm for the position or the company, or as a mark of thoroughness. Information collected might include open positions, full name, locations, web site, business description, year established, revenues, number of employees, stock price if public, name of chief executive officer, major products or services, major competitors, and strengths and weaknesses.

### Networking

Contacting as many people as possible is a highly effective way to find a job. It is estimated that 50% or higher of all jobs are found through networking.[[2]](http://en.wikipedia.org/wiki/Job_hunting#cite_note-1)

Job recruiters and decision makers are increasingly using online social networking sites to gather information about job applicants, according to a mid-2011 Jobvite survey of 800 employers in the USA.[[3]](http://en.wikipedia.org/wiki/Job_hunting#cite_note-2)

Job seekers need to begin to pay more attention to what employers and recruiters find when they do their pre-interview information gathering about applicants, according to this 2010 study by[Microsoft](http://en.wikipedia.org/wiki/Microsoft), "Online Reputation in a Connected World".[[4]](http://en.wikipedia.org/wiki/Job_hunting#cite_note-3)

### Applying

One can also go and hand out [résumés](http://en.wikipedia.org/wiki/R%C3%A9sum%C3%A9) or [Curriculum Vitae](http://en.wikipedia.org/wiki/R%C3%A9sum%C3%A9) to prospective employers. Another recommended method of job hunting is [cold calling](http://en.wikipedia.org/wiki/Cold_calling) or [emailing](http://en.wikipedia.org/wiki/Email) companies that one desires to work for and inquire to whether there are any job vacancies.

After finding a desirable job, they would then apply for the job by responding to the advertisement. This may mean applying through a website, emailing or mailing in a hard copy of your résumé to a prospective employer. It is generally recommended that résumés be brief, organized, concise, and targeted to the position being sought. With certain occupations, such as [graphic design](http://en.wikipedia.org/wiki/Graphic_design) or[writing](http://en.wikipedia.org/wiki/Writer), portfolios of a job seeker's previous work are essential and are evaluated as much, if not more than the person's résumé. In most other occupations, the résumé should focus on past accomplishments, expressed in terms as concretely as possible (e.g. number of people managed, amount of increased sales or improved customer satisfaction).

### Interviewing

Once an employer has received your résumé, they will make a list of potential employees to be interviewed based on the résumé and any other information contributed. During the interview process, interviewers generally look for persons who they believe will be best for the job and work environment. The interview may occur in several rounds until the interviewer is satisfied and offers the job to the applicant.

### Onboarding

New employees begin their onboarding into new organizations even before their first contact with potential employers. While the best employers will invest in accommodating, assimilating and accelerating new employees,[[5]](http://en.wikipedia.org/wiki/Job_hunting#cite_note-4) those joining firms that don't should take charge of their own onboarding, doing their best to get a head start before their start, manage their messages, and help others deliver results after they start.[[6]](http://en.wikipedia.org/wiki/Job_hunting#cite_note-5)

# Application for employment

An **application for employment**, **job application**, or **application form** (often simply called an **application**) is a [form](http://en.wikipedia.org/wiki/Form_(document)) or collection of forms that an individual seeking [employment](http://en.wikipedia.org/wiki/Employment), called an applicant, must fill out as part of the process of informing an employer of the applicant's availability and desire to be employed, and persuading the employer to offer the applicant employment.

## Purpose of the application

From the employer's perspective, the application serves a number of purposes. These vary depending on the nature of the job and the preferences of the person responsible for hiring, as "each organization should have an application form that reflects its own environment".[[1]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-DA111-0) At a minimum, an application usually requires the applicant to provide information sufficient to demonstrate that he or she is legally permitted to be employed. The typical application also requires the applicant to provide information regarding relevant [skills](http://en.wikipedia.org/wiki/Skill), [education](http://en.wikipedia.org/wiki/Education), and previous employment. The application itself is a minor test of the applicant's [literacy](http://en.wikipedia.org/wiki/Literacy), [penmanship](http://en.wikipedia.org/wiki/Penmanship), and [communication skills](http://en.wikipedia.org/wiki/Communication_skills) - a careless job applicant might disqualify themselves with a poorly-filled out application.

The application may also require the applicant to disclose any [criminal record](http://en.wikipedia.org/wiki/Criminal_record), and to provide information sufficient to enable the employer to conduct an appropriate [background check](http://en.wikipedia.org/wiki/Background_check). For a business that employs workers on a [part-time](http://en.wikipedia.org/wiki/Part-time) basis, the application may inquire as to the applicant's specific times and days of availability, and preferences in this regard. It is important to note, however, that an employer may be prohibited from asking applicants about characteristics that are not relevant to the job, such as their political view or sexual orientation.[[1]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-DA111-0)[[2]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-1)

For [white collar](http://en.wikipedia.org/wiki/White-collar_worker) jobs, particularly those requiring communication skills, the employer will typically require applicants to accompany the form with a [cover letter](http://en.wikipedia.org/wiki/Cover_letter) and a [résumé](http://en.wikipedia.org/wiki/R%C3%A9sum%C3%A9).[[3]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-2) However, even employers who accept a cover letter and résumé will frequently also require the applicant to complete a form application, as the other documents may neglect to mention details of importance to the employers.[[4]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-3)[[5]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-4) In some instances, an application is effectively used to dissuade "walk-in" applicants, serving as a barrier between the applicant and a [job interview](http://en.wikipedia.org/wiki/Job_interview) with the person with the authority to hire.[[6]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-5)

For many businesses, applications for employment can be filled out online, and do not have to be submitted in person. However, it is still recommended that applicants bring a printed copy of their application to an interview.[[7]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-6)

Application blanks are the second most common hiring instrument next to personal interviews.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Companies will occasionally use two types of application blanks, short and long.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] They both help companies with initial screening and the longer form can be used for other purposes as well. The answers that applicants choose to submit are helpful to the company because they can become an interview question for that applicant at a future date.

Application blanks can either be done by hand or electronically, depending on the company.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] When submitting an application blank typically companies will ask you attach a one-page [cover letter](http://en.wikipedia.org/wiki/Cover_letter) as well as a [resume](http://en.wikipedia.org/wiki/Resume). Applicants tend to make the mistake of sharing too much information with the company and their application will be immediately over looked.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]Offering too much information gives the company a bigger opportunity to find something they do not like. Companies are not allowed to ask certain questions in person or on an application such as: age, health status, religion, marital status, about children, race, height, weight, whom you live with and etc.

## Application Sections

Applications usually ask the applicant at the minimum for your name, phone number, and address. In addition to this applications also ask for previous employment information, educational background, emergency contacts, references, as well as any special skills the applicant might have.

The three categories application blanks are very useful for discovering are; physical characteristics, experience, and socio-environmental factors.

Physical Characteristics

If the company has a bona fide occupational qualification (BFOQ) to ask regarding a physical condition, they may ask questions about it such as: The job requires a lot of physical labor. Do you have any physical problems that may interfere with this job?

Experience

Experience requirements can be separated into two groups on an application, work experience and educational background. Educational background is important to companies because by evaluating applicants’ performance in school tells them what their personality is like as well as their intelligence. Work experience is important to companies because it will inform the company if the applicant meets their requirements. Companies are usually interested when applicants were unemployed and when/why the applicant left their previous job.

Socio-environmental qualifications

Companies are interested in the applicant’s socio-environment because it can inform them of their personality, interest, and qualities. If they are extremely active within an organization, that may demonstrate their ability to communicate well with others. Being in management may demonstrate their leadership ability as well as their determination and so on.[[8]](http://en.wikipedia.org/wiki/Application_for_employment#cite_note-7)

# Curriculum vitae

A **curriculum vitae** (**CV**), (also spelled curriculum vitæ), provides an overview of a person's experience and other qualifications. In some countries, a CV is typically the first item that a potential[employer](http://en.wikipedia.org/wiki/Employer) encounters regarding the job seeker and is typically used to screen applicants, often followed by an [interview](http://en.wikipedia.org/wiki/Job_interview), when seeking [employment](http://en.wikipedia.org/wiki/Employment).

## Etymology and spellings

*Curriculum vitae* is a [Latin](http://en.wikipedia.org/wiki/Latin) expression which can be loosely translated as *[the] course of [my] life*. In current usage, *curriculum* is less [marked](http://en.wikipedia.org/wiki/Markedness) as a foreign [loanword](http://en.wikipedia.org/wiki/Loanword).

The plural of *curriculum vitæ*, in Latin, is formed following Latin rules of grammar as *curricula vitæ* (meaning "courses of life") — not *curriculum vita* (which is grammatically incorrect) and not*curriculavitarum*[[1]](http://en.wikipedia.org/wiki/Curriculum_vitae#cite_note-aueFAQ-0). The form *vitæ* is the singular [genitive](http://en.wikipedia.org/wiki/Genitive) of *vita* and is translated as "of life".

Nevertheless, in English, the plural of the full expression curriculum vitae is seldom used; the plural of *curriculum* on its own is usually written as "curriculums",[[2]](http://en.wikipedia.org/wiki/Curriculum_vitae#cite_note-AHD-1) rather than the traditional*curricula*.[[3]](http://en.wikipedia.org/wiki/Curriculum_vitae#cite_note-OED-2)

## Use

In the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), a CV is short (usually a maximum of 2 sides of [A4](http://en.wikipedia.org/wiki/ISO_216) paper), and therefore contains only a summary of the job seeker's employment history, qualifications and some personal information. It is often updated to change the emphasis of the information according to the particular position for which the job seeker is applying.[[4]](http://en.wikipedia.org/wiki/Curriculum_vitae#cite_note-UoE01-3) Many CVs contain [keywords](http://en.wikipedia.org/wiki/Keywords) that potential employers might pick up on and display the content in the most flattering manner, brushing over information like poor grades.[[4]](http://en.wikipedia.org/wiki/Curriculum_vitae#cite_note-UoE01-3) A CV can also be extended to include an extra page for the job-seeker's publications if these are important for the job.

In the [United States](http://en.wikipedia.org/wiki/United_States) and [Canada](http://en.wikipedia.org/wiki/Canada), a CV is used in academic circles and medical careers as a "replacement" for a résumé and is far more comprehensive; the term [*résumé*](http://en.wikipedia.org/wiki/R%C3%A9sum%C3%A9) is used for most recruitment campaigns. A CV elaborates on education to a greater degree than a résumé and is expected to include a comprehensive listing of professional history including every term of employment, academic credential, publication, contribution or significant achievement. In certain professions, it may even include samples of the person's work and may run to many pages. Many executives and professionals choose to use short CVs that highlight the focus of their lives and not necessarily their employment or education.

In the [European Union](http://en.wikipedia.org/wiki/European_Union), there has been an attempt to develop a standardized [CV format](http://en.wikipedia.org/wiki/CV_format) known as [Europass](http://en.wikipedia.org/wiki/Europass) (in 2004 by the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) and [European Commission](http://en.wikipedia.org/wiki/European_Commission)) and promoted by the EU to ease skilled migration between member countries, although this is not widely used in most contexts. The Europass CV system is meant to be just as helpful to employers and education providers as it is to students and job seekers. It was designed to help them understand what people changing between the countries have to offer, whilst overcoming linguistic barriers. The Europass documents also provide recognition for non-accredited learning and work experience.

Some companies produce their own application form which must be completed in applying for any position. Of those, some prefer not to receive a CV at all, but some also allow applicants to attach a CV in support of the application. These companies prefer to process applications this way so they can standardize the information they receive, since CVs are written in many different styles. A CV on its own, therefore, may not give a company all the information it needs at the application stage.

# Cover letter

A **cover letter**, **covering letter**, **motivation letter**, **motivational letter** or a **letter of motivation** is a [letter](http://en.wikipedia.org/wiki/Letter_(message)) of introduction attached to, or accompanying another [document](http://en.wikipedia.org/wiki/Document) such as a [résumé](http://en.wikipedia.org/wiki/R%C3%A9sum%C3%A9) or[curriculum vitae](http://en.wikipedia.org/wiki/Curriculum_vitae).[[1]](http://en.wikipedia.org/wiki/Motivation_letter#cite_note-Yate2004-0)

## For employment

[Job seekers](http://en.wikipedia.org/wiki/Job_hunting) frequently send a cover letter along with their [CV](http://en.wikipedia.org/wiki/Curriculum_vitae) or [employment application](http://en.wikipedia.org/wiki/Application_for_employment) as a way of introducing themselves to potential employers and explaining their suitability for the desired position. Employers may look for individualized and thoughtfully written cover letters as one method of screening out applicants who are not sufficiently interested in their position or who lack necessary basic skills. Cover letters are typically divided into three categories:

* The application letter or invited cover letter which responds to a known job opening
* The prospecting letter or uninvited cover letter which inquires about possible positions
* The networking letter which requests information and assistance in the sender's job search

### Format

Cover letters are generally one page at most in length, divided into a header, introduction, body, and closing.[[2]](http://en.wikipedia.org/wiki/Motivation_letter#cite_note-WallaceMass..292006-1)

* *Header*. Cover letters use standard [business letter](http://en.wikipedia.org/wiki/Business_letter) style, with the sender's address and other information, the recipient's contact information, and the date sent after either the sender's or the recipient's address. Following that is an optional reference section (e.g. "RE: Internship Opportunity at Global Corporation") and an optional transmission note (e.g. "Via Email to jobs@example.net"). The final part of the header is a salutation (e.g., "Dear Hiring Managers").
* *Introduction*. The [introduction](http://en.wikipedia.org/wiki/Introduction_(essay)) briefly states the specific position desired, and should be designed to catch the employer's immediate interest.
* *Body*. The body highlights or amplifies on material in the resume or job application, and explains why the job seeker is interested in the job and would be of value to the employer. Also, matters discussed typically include [skills](http://en.wikipedia.org/wiki/Skill), [qualifications](http://en.wikipedia.org/wiki/Professional_certification), and past [experience](http://en.wikipedia.org/wiki/Experience). If there are any special things to note such as availability date, they may be included as well.
* *Closing*. A closing sums up the letter and indicates the next step the applicant expects to take. It may indicate that the applicant intends to contact the employer, although many favor the more indirect approach of simply saying that the applicant will look forward to hearing from or speaking with the employer. After the closing is a valediction ("Sincerely"), and then a signature line. Optionally, the abbreviation "ENCL" may be used to indicate that there are enclosures.

# Job interview

A **job interview** is a process in which a potential employee is evaluated by an employer for prospective employment in their company, organization, or firm. During this process, the employer hopes to determine whether or not the applicant is suitable for the role.

## Role

A job interview typically precedes the hiring decision, and is used to evaluate the candidate. The interview is usually preceded by the evaluation of submitted [résumés](http://en.wikipedia.org/wiki/R%C3%A9sum%C3%A9) from interested candidates, then selecting a small number of candidates for interviews. Potential job interview opportunities also include networking events and career fairs. The job interview is considered one of the most useful tools for evaluating potential employees.[[1]](http://en.wikipedia.org/wiki/Job_interview#cite_note-state.ne.us-0) It also demands significant resources from the employer, yet has been demonstrated to be notoriously unreliable in identifying the optimal person for the job.[[1]](http://en.wikipedia.org/wiki/Job_interview#cite_note-state.ne.us-0) An interview also allows the candidate to assess the [corporate culture](http://en.wikipedia.org/wiki/Corporate_culture) and demands of the job.

Multiple rounds of job interviews may be used where there are many candidates or the job is particularly challenging or desirable. Earlier rounds may involve fewer staff from the employers and will typically be much shorter and less in-depth. A common initial interview form is the phone interview, a job interview conducted over the telephone. This is especially common when the candidates do not live near the employer and has the advantage of keeping costs low for both sides.

Once all candidates have been interviewed, the employer typically selects the most desirable candidate and begins the negotiation of a job offer.

## Interview constructs

In light of its popularity, a stream of research has attempted to identify the constructs (ideas or concepts) that are measured during the interview to understand why interviews might help us pick the right people for the job. Several reviews of the research on interview constructs revealed that the interview captures a wide variety of applicant attributes.[[2]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2011-1)[[3]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2001-2)[[4]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Salgado.2C_J._F._2002-3) These constructs can be classified into three categories: job-relevant interview content (constructs interview questions are designed to assess), interviewee performance (applicant behaviors unrelated to the applicant characteristics the interview questions are designed to assess but nevertheless influence interviewer evaluations of interviewee responses), and potentially job-irrelevant interviewer biases (personal and demographic characteristics of applicants that may influence interviewer evaluations of interviewee responses in an illegal, discriminatory way).

**Job-relevant interview content**

Interview questions are generally designed to tap applicant attributes that are specifically relevant to the job for which the person is applying. The job-relevant applicant attributes that the questions purportedly assess are thought to be necessary for one to successfully perform on the job. The job-relevant constructs that have been assessed in the interview can be classified into three categories: general traits, experiential factors, and core job elements. The first category refers to relatively stable applicant traits. The second category refers to job knowledge that the applicant has acquired over time. The third category refers to the knowledge, skills, and abilities associated with the job.

**General traits:**

* Mental ability: Applicants’ capacity to learn and process information[[3]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2001-2)
* Personality: Conscientiousness, agreeableness, emotional stability, extroversion, openness to new experiences[[2]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2011-1)[[3]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2001-2)[[4]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Salgado.2C_J._F._2002-3)
* Interest, goals, and values: Applicant motives, goals, and person-organization fit[[3]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2001-2)

**Experiential factors:**

* Experience: Job-relevant knowledge derived from prior experience[[3]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2001-2)[[4]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Salgado.2C_J._F._2002-3)
* Education: Job-relevant knowledge derived from prior education
* Training: Job-relevant knowledge derived from prior training

**Core job elements:**

* Declarative knowledge: Applicants’ learned knowledge[[4]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Salgado.2C_J._F._2002-3)
* Procedural skills and abilities: Applicants’ ability to complete the tasks required to do the job[[5]](http://en.wikipedia.org/wiki/Job_interview#cite_note-4)
* Motivation: Applicants’ willingness to exert the effort required to do the job[[6]](http://en.wikipedia.org/wiki/Job_interview#cite_note-5)

**Interviewee performance**

Interviewer evaluations of applicant responses also tend to be colored by how an applicant behaves in the interview. These behaviors may not be directly related to the constructs the interview questions were designed to assess, but can be related to aspects of the job for which they are applying. Applicants without realizing it may engage in a number of behaviors that influence ratings of their performance. The applicant may have acquired these behaviors during training or from previous interview experience. These interviewee performance constructs can also be classified into three categories: social effectiveness skills, interpersonal presentation, and personal/contextual factors.

**Social effectiveness skills:**

* Impression management: Applicants’ attempt to make sure the interviewer forms a positive impression of them[[7]](http://en.wikipedia.org/wiki/Job_interview#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Job_interview#cite_note-7)
* Social skills: Applicants’ ability to adapt his/her behavior according to the demands of the situation to positively influence the interviewer[[9]](http://en.wikipedia.org/wiki/Job_interview#cite_note-8)
* Self-monitoring: Applicants’ regulation of behaviors to control the image presented to the interviewer[[10]](http://en.wikipedia.org/wiki/Job_interview#cite_note-9)
* Relational control: Applicants’ attempt to control the flow of the conversation[[11]](http://en.wikipedia.org/wiki/Job_interview#cite_note-10)

**Interpersonal Presentation:**

* Verbal expression: Pitch, rate, pauses[[12]](http://en.wikipedia.org/wiki/Job_interview#cite_note-11)
* Nonverbal behavior: Gaze, smile, hand movement, body orientation[[13]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Burnett.2C_J._R._1998-12)

**Personal/contextual factors:**

* Interview training: Coaching, mock interviews with feedback[[14]](http://en.wikipedia.org/wiki/Job_interview#cite_note-13)
* Interview experience: Number of prior interviews[[15]](http://en.wikipedia.org/wiki/Job_interview#cite_note-14)
* Interview self-efficacy: Applicants’ perceived ability to do well in the interview[[16]](http://en.wikipedia.org/wiki/Job_interview#cite_note-15)
* Interview motivation: Applicants’ motivation to succeed in an interview[[17]](http://en.wikipedia.org/wiki/Job_interview#cite_note-16)

**Job-irrelevant interviewer biases**

The following are personal and demographic characteristics that can potentially influence interviewer evaluations of interviewee responses. These factors are typically not relevant to whether the individual can do the job (that is, not related to job performance), thus, their influence on interview ratings should be minimized or excluded. In fact, there are laws in many countries that prohibit consideration of many of these protected classes of people when making selection decisions. Using structured interviews with multiple interviewers coupled with training may help reduce the effect of the following characteristics on interview ratings.[[18]](http://en.wikipedia.org/wiki/Job_interview#cite_note-McCarthy.2C_J._M._2010-17) The list of job-irrelevant interviewer biases is presented below.

* Attractiveness: Applicant physical attractiveness can influence interviewer’s evaluation of one’s interview performance[[13]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Burnett.2C_J._R._1998-12)
* Race: Whites tend to score higher than Blacks and Hispanics;[[19]](http://en.wikipedia.org/wiki/Job_interview#cite_note-18) racial similarity between interviewer and applicant, on the other hand, has not been found to influence interview ratings[[18]](http://en.wikipedia.org/wiki/Job_interview#cite_note-McCarthy.2C_J._M._2010-17)[[20]](http://en.wikipedia.org/wiki/Job_interview#cite_note-19)
* Gender: Females tend to receive slightly higher interview scores than their male counterparts;[[2]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2011-1) gender similarity does not seem to influence interview ratings[[18]](http://en.wikipedia.org/wiki/Job_interview#cite_note-McCarthy.2C_J._M._2010-17)
* Similarities in background and attitudes: Interviewers perceived interpersonal attraction was found to influence interview ratings[[21]](http://en.wikipedia.org/wiki/Job_interview#cite_note-20)
* Culture: Applicants with an ethnic name and a foreign accent were viewed less favorably than applicants with just an ethnic name and no accent or an applicant with a traditional name with or without an accent[[22]](http://en.wikipedia.org/wiki/Job_interview#cite_note-21)

The extent to which ratings of interviewee performance reflect certain constructs varies widely depending on the level of structure of the interview, the kind of questions asked, interviewer or applicant biases, applicant professional dress or nonverbal behavior, and a host of other factors. For example, some research suggests that applicant’s cognitive ability, education, training, and work experiences may be better captured in unstructured interviews, whereas applicant’s job knowledge, organizational fit, interpersonal skills, and applied knowledge may be better captured in a structured interview.[[3]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2001-2)

Further, interviews are typically designed to assess a number of constructs. Given the social nature of the interview, applicant responses to interview questions and interviewer evaluations of those responses are sometimes influenced by constructs beyond those the questions were intended to assess, making it extremely difficult to tease out the specific constructs measured during the interview.[[23]](http://en.wikipedia.org/wiki/Job_interview#cite_note-22) Reducing the number of constructs the interview is intended to assess may help mitigate this issue. Moreover, of practical importance is whether the interview is a better measure of some constructs in comparison to paper and pencil tests of the same constructs. Indeed, certain constructs (mental ability and skills, experience) may be better measured with paper and pencil tests than during the interview, whereas personality-related constructs seem to be better measured during the interview in comparison to paper and pencil tests of the same personality constructs.[[24]](http://en.wikipedia.org/wiki/Job_interview#cite_note-23) In sum, the following is recommended: Interviews should be developed to assess the job relevant constructs identified in the job analysis.[[25]](http://en.wikipedia.org/wiki/Job_interview#cite_note-24)[[26]](http://en.wikipedia.org/wiki/Job_interview#cite_note-25)

## Process

A typical job interview has a single candidate [meeting](http://en.wikipedia.org/wiki/Meeting) with between one and three persons representing the employer; the potential [supervisor](http://en.wikipedia.org/wiki/Supervisor) of the employee is usually involved in the interview process. A larger *interview panel* will often have a specialized [human resources](http://en.wikipedia.org/wiki/Human_resources) worker. While the meeting can be over in as little as 15 minutes, job interviews usually last less than two hours.

The bulk of the job interview will entail the interviewers asking the candidate questions about his or her job history, personality, work style and other factors relevant to the job. For instance, a common interview question is "What are your [strengths and weaknesses](http://en.wikipedia.org/wiki/Strengths_and_weaknesses_(personality))?" The candidate will usually be given a chance to ask any questions at the end of the interview. These questions are strongly encouraged since they allow the interviewee to acquire more information about the job and the company, but they can also demonstrate the candidate's strong interest in them. When an interviewer asks about the weaknesses of a candidate, they are acknowledging the fact that they are not perfect. However, the interviewer is not really interested in their weaknesses but how they may make up for them. It also displays the skill of self-reflection and the pursuit for self-improvement.[[27]](http://en.wikipedia.org/wiki/Job_interview#cite_note-26)

Candidates for lower paid and lower skilled positions tend to have much simpler job interviews than do candidates for more senior positions. For instance, a lawyer's job interview will be much more demanding than that of a retail [cashier](http://en.wikipedia.org/wiki/Cashier). Most job interviews are formal; the larger the firm, the more formal and structured the interview will tend to be. Candidates generally dress slightly better than they would for work, with a [suit](http://en.wikipedia.org/wiki/Suit_(clothing)) (called an [interview suit](http://en.wikipedia.org/wiki/Interview_suit)) being appropriate for a [white-collar](http://en.wikipedia.org/wiki/White-collar_worker) job interview.

Additionally, some professions have specific types of job interviews; for performing artists, this is an [audition](http://en.wikipedia.org/wiki/Audition) in which the emphasis is placed on the performance ability of the candidate.

In many companies, *assessment days* are increasingly being used, particularly for graduate positions, which may include analysis tasks, group activities, presentation exercises, and[psychometric](http://en.wikipedia.org/wiki/Psychometric) testing.

In recent years it has become increasingly common for employers to request job applicants who are successfully shortlisted to deliver one or more presentations at their interview. The purpose of the [presentation](http://en.wikipedia.org/wiki/Presentation) in this setting may be to *either* demonstrate candidates' skills and abilities in presenting, or to highlight their knowledge of a given subject likely to relate closely to the job role for which they have applied. It is common for the applicant to be notified of the request for them to deliver a presentation along with their invitation to attend the interview. Usually applicants are only provided with a title for the presentation and a time limit which the presentation should not exceed.

A bad hiring decision nowadays can be immensely expensive for an organization—cost of the hire, training costs, severance pay, loss of productivity, impact on morale, cost of re-hiring, etc. (Gallup international places the cost of a bad hire as being 3.2 times the individual's salary). Studies indicate that 40% of new executives fail in their first 18 months in a new job.[[28]](http://en.wikipedia.org/wiki/Job_interview#cite_note-27) This has led to organizations investing in [onboarding](http://en.wikipedia.org/wiki/Onboarding) for their new employees to reduce these failure rates.

## Process model

One way to think about the interview process is as three separate, albeit related, phases: (1) the preinterview phase which occurs before the interviewer and candidate meet, (2) the interview phase where the interview is conducted, and (3) the postinterview phase where the interviewer forms judgments of candidate qualifications and makes final decisions.[[29]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD88-28) Although separate, these three phases are related. That is, impressions interviewers form early on may affect how they view the person in a later phase.

**Preinterview phase**: The preinterview phase encompasses the information available to the interviewer beforehand (e.g., resumes, test scores, social networking site information) and the perceptions interviewers form about applicants from this information prior to the actual face-to-face interaction between the two individuals. In this phase, interviewers are likely to already have ideas about the characteristics that would make a person ideal or qualified for the position.[[30]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DMS-29) Interviewers also have information about the applicant usually in the form of a resume, test scores, or prior contacts with the applicant.[[29]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD88-28) Interviewers then often integrate information that they have on an applicant with their ideas about the ideal employee to form a preinterview evaluation of the candidate. In this way, interviewers typically have an impression of you even before the actual face-to-face interview interaction. Nowadays with recent technological advancements, we must be aware that interviewers have an even larger amount of information available on some candidates. For example, interviewers can obtain information from search engines (e.g. Google, Bing, Yahoo), blogs, and even social networks (e.g. Linkedin, Facebook, Twitter). While some of this information may be job-related, some of it may not be. Despite the relevance of the information, any information interviewers obtain about the applicant before the interview is likely to influence their preinterview impression of the candidate. And, why is all this important? It is important because what interviewers think about you before they meet you, can have an effect on how they might treat you in the interview and what they remember about you.[[29]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD88-28)[[31]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD88Effect-30) Furthermore, researchers have found that what interviewers think about the applicant before the interview (preinterview phase) is related to how they evaluate the candidate after the interview, despite how the candidate may have performed during the interview.[[32]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD90-31)

**Interview phase**: The interview phase entails the actual conduct of the interview, the interaction between the interviewer and the applicant. Initial interviewer impressions about the applicant before the interview may influence the amount of time an interviewer spends in the interview with the applicant, the interviewer’s behavior and questioning of the applicant,[[33]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Dipboye82-32) and the interviewer’s postinterview evaluations.[[32]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD90-31) Preinterview impressions also can affect what the interviewer notices about the interviewee, recalls from the interview, and how an interviewer interprets what the applicant says and does in the interview.[[31]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD88Effect-30)

As interviews are typically conducted face-to-face, over the phone, or through video conferencing[[34]](http://en.wikipedia.org/wiki/Job_interview#cite_note-33) (e.g. Skype), they are a social interaction between at least two individuals. Thus, the behavior of the interviewer during the interview likely “leaks” information to the interviewee. That is, you can sometimes tell during the interview whether the interviewer thinks positively or negatively about you.[[29]](http://en.wikipedia.org/wiki/Job_interview#cite_note-MD88-28) Knowing this information can actually affect how the applicant behaves, resulting in a self-fulfilling prophecy effect.[[33]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Dipboye82-32)[[35]](http://en.wikipedia.org/wiki/Job_interview#cite_note-34) For example, interviewees who feel the interviewer does not think they are qualified may be more anxious and feel they need to prove they are qualified. Such anxiety may hamper how well they actually perform and present themselves during the interview, fulfilling the original thoughts of the interviewer. Alternatively, interviewees who perceive an interviewer believes they are qualified for the job may feel more at ease and comfortable during the exchange, and consequently actually perform better in the interview. It should be noted again, that because of the dynamic nature of the interview, the interaction between the behaviors and thoughts of both parties is a continuous process whereby information is processed and informs subsequent behavior, thoughts, and evaluations.

**Postinterview phase**: After the interview is conducted, the interviewer must form an evaluation of the interviewee’s qualifications for the position. The interviewer most likely takes into consideration all the information, even from the preinterview phase, and integrates it to form a postinterview evaluation of the applicant. In the final stage of the interview process, the interviewer uses his/her evaluation of the candidate (i.e., in the form of interview ratings or judgment) to make a final decision. Sometimes other selection tools (e.g., work samples, cognitive ability tests, personality tests) are used in combination with the interview to make final hiring decisions; however, interviews remain the most commonly used selection device in North America.[[36]](http://en.wikipedia.org/wiki/Job_interview#cite_note-35)

**For interviewees**: Although the description of the interview process above focuses on the perspective of the interviewer, job applicants also gather information on the job and/or organization and form impressions prior to the interview.[[30]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DMS-29) The interview is a two-way exchange and applicants are also making decisions about whether the company is a good fit for them. Essentially, the process model illustrates that the interview is not an isolated interaction, but rather a complex process that begins with two parties forming judgments and gathering information, and ends with a final interviewer decision.

## Types of questions

### History of interview questions

In interviews that are considered “structured interviews,” there are typically two types of questions interviewers ask applicants: situational questions [[37]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Latham.2C_G._P._1980-36) and behavioral questions (also known as patterned behavioral description interviews).[[38]](http://en.wikipedia.org/wiki/Job_interview#cite_note-37) Both types of questions are based on “critical incidents” that are required to perform the job [[39]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Flanagan.2C_J._C._1954-38) but they differ in their focus (see below for descriptions). Critical incidents are relevant tasks that are required for the job and can be collected through interviews or surveys with current employees, managers, or subject matter experts[[40]](http://en.wikipedia.org/wiki/Job_interview#cite_note-39)[[41]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Campion.2C_M._A._1997-40) One of the first critical incidents techniques ever used in the United States Army asked combat veterans to report specific incidents of effective or ineffective behavior of a leader. The question posed to veterans was “Describe the officer’s actions. What did he do?” Their responses were compiled to create a factual definition or “critical requirements” of what an effective combat leader is.[[39]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Flanagan.2C_J._C._1954-38)

Previous meta-analyses have found mixed results for which type of question will best predict future job performance of an applicant. For example, some studies have shown that situational type questions have better predictability for job performance in interviews,[[42]](http://en.wikipedia.org/wiki/Job_interview#cite_note-41)[[43]](http://en.wikipedia.org/wiki/Job_interview#cite_note-42)[[44]](http://en.wikipedia.org/wiki/Job_interview#cite_note-43) while, other researchers have found that behavioral type questions are better at predicting future job performance of applicants.[[45]](http://en.wikipedia.org/wiki/Job_interview#cite_note-44) In actual interview settings it is not likely that the sole use of just one type of interview question (situational or behavioral) is asked. A range of questions can add variety for both the interviewer and applicant.[[41]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Campion.2C_M._A._1997-40) In addition, the use of high-quality questions, whether behavioral or situational based, is essential to make sure that candidates provide meaningful responses that lead to insight into their capability to perform on the job.[[46]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2010-45)

### Behavioral questions

Behavioral (experience-based or patterned behavioral) interviews are past-oriented in that they ask respondents to relate what they did in past jobs or life situations that are relevant to the particular job relevant knowledge, skills, and abilities required for success[[47]](http://en.wikipedia.org/wiki/Job_interview#cite_note-46)[[48]](http://en.wikipedia.org/wiki/Job_interview#cite_note-47) The idea is that past behavior is the best predictor of future performance in similar situations. By asking questions about how job applicants have handled situations in the past that are similar to those they will face on the job, employers can gauge how they might perform in future situations.[[49]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Pulakos.2C_E._D._1995-48)

Behavioral interview question examples:.

* Describe a situation in which you were able to use persuasion to successfully convince someone to see things your way.
* Give me an example of a time when you set a goal and were able to meet or achieve it.
* Tell me about a time when you had to use your presentation skills to influence someone's opinion.
* Give me an example of a time when you had to conform to a policy with which you did not agree.

One way individuals can prepare for behavioral type questions is to practice the STAR method. The STAR method is a structured manner of responding to a behavioral-based interview question by discussing the specific situation, task, action, and result of the situation you are describing.

**Situation:** Describe the situation that you were in or the task that you needed to accomplish. This should describe specifics rather than general descriptions of past behavior.

**Task:** What goal were you working toward?

**Action:** Describe the actions you took to address the situation with detail and focus on yourself. What specific steps did you take and what was your contribution?

**Result:** Describe the outcome of your actions. What happened? How did the event end? What did you accomplish? What did you learn? Make sure your answer contains multiple positive results.

### Situational interview questions

Situational interview questions[[37]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Latham.2C_G._P._1980-36) ask job applicants to imagine a set of circumstances and then indicate how they would respond in that situation; hence, the questions are future oriented. One advantage of situational questions is that all interviewees respond to the same hypothetical situation rather than describe experiences unique to them from their past. Another advantage is that situational questions allow respondents who have had no direct job experience relevant to a particular question to provide a hypothetical response.[[49]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Pulakos.2C_E._D._1995-48) Two core aspects of the SI are the development of situational dilemmas that employees encounter on the job, and a scoring guide to evaluate responses to each dilemma.[[50]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Latham.2C_G._P._1999-49)

Situational examples

* You are managing a work group and notice that one of your employees has become angry and hostile in recent weeks, to the point of disrupting the entire group. What would you do? [[46]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._2010-45)
* You are in a meeting. Your manager blames you for not doing well on a task, in front of all your peers and managers from other divisions. You believe that your manager is wrong in his critique, and that he might have come to this conclusion hastily without knowing all the information. You feel you are being treated unfairly in front of your peers. You feel that your reputation may be affected by this critique. What would you do in this situation?.[[51]](http://en.wikipedia.org/wiki/Job_interview#cite_note-50)
* A general request has been issued by the Dean for someone to serve on a new joint government/industry/university committee on business education. The objective of the committee is to design the budgeting allocation for the Faculty for the next fiscal year. It is well known that you have the necessary skill and expertise to improve the chances that the Faculty will receive budget increases for future operations. You have been told that it will require 2–3 days per month of your time for the next 9 months. Your tenure review is one year away. Although you think you have a good publication record, you have no guarantee of tenure at this point. You are concerned because you have already fallen behind on an important research project that you are pursuing with a colleague at another university. What, if anything, would you do?[[50]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Latham.2C_G._P._1999-49)
* You are in charge of truck drivers in Toronto. Your colleague is in charge of truck drivers in Montreal. Both of you report to the same person. Your salary and bonus are affected 100% by your costs. Your colleague is in desperate need of one of your trucks. If you say no, your costs will remain low and your group will probably win the Golden Flyer award for the quarter. If you say yes, the Montreal group will probably win this prestigious award because they will make a significant profit for the company. Your boss is preaching costs, costs, costs, as well as co-operation with one's peers. Your boss has no control over accounting who are the score keepers. Your boss is highly competitive; he or she rewards winners. You are just as competitive; you are a real winner! What would you do in this situation?[[50]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Latham.2C_G._P._1999-49)

### Other types of questions

Other possible types of questions that may be asked in an interview include: background questions, job experience questions, and puzzle type questions. A brief explanation of each follows.

* Background questions include a focus on work experience, education, and other qualifications.[[52]](http://en.wikipedia.org/wiki/Job_interview#cite_note-51) For instance, an interviewer may ask “What experience have you had with direct sales phone calls?”
* Job experience questions may ask candidates to describe or demonstrate job knowledge. These are typically highly specific questions.[[53]](http://en.wikipedia.org/wiki/Job_interview#cite_note-52) For example, one question may be “What steps would you take to conduct a manager training session on safety?”
* The puzzle interview was popularized by Microsoft in the 1990s, and is now used in other organizations. The most common types of questions either ask the applicant to solve puzzles or brainteasers (e.g., “Why are manhole covers round?”) or to solve unusual problems (e.g., “How would you weigh an airplane without a scale?”).[[54]](http://en.wikipedia.org/wiki/Job_interview#cite_note-53)

### Case

*Further information:*[*Case interview*](http://en.wikipedia.org/wiki/Case_interview)

A case interview is an interview form used mostly by management consulting firms and investment banks in which the job applicant is given a question, situation, problem or challenge and asked to resolve the situation. The case problem is often a business situation or a business case that the interviewer has worked on in real life.

### Panel

Another type of job interview found throughout the professional and academic ranks is the *panel interview*. In this type of interview the candidate is interviewed by a group of panelists representing the various stakeholders in the hiring process. Within this format there are several approaches to conducting the interview. Example formats include;

* Presentation format – The candidate is given a generic topic and asked to make a presentation to the panel. Often used in academic or sales-related interviews.
* Role format – Each panelist is tasked with asking questions related to a specific role of the position. For example one panelist may ask technical questions, another may ask management questions, another may ask customer service related questions etc.
* Skeet shoot format – The candidate is given questions from a series of panelists in rapid succession to test his or her ability to handle stress filled situations.

The benefits of the panel approach to interviewing include: time savings over serial interviewing, more focused interviews as there is often less time spend building rapport with small talk, and "[apples to apples](http://en.wikipedia.org/wiki/Apples_and_oranges)" comparison because each stake holder/interviewer/panelist gets to hear the answers to the same questions.[[55]](http://en.wikipedia.org/wiki/Job_interview#cite_note-54)

### Stress

Stress interviews are still in common use. One type of stress interview is where the employer uses a succession of interviewers (one at a time or *en masse*) whose mission is to intimidate the candidate and keep him/her off-balance. The ostensible purpose of this interview: to find out how the candidate handles stress. Stress interviews might involve testing an applicant's behavior in a busy environment. Questions about handling work overload, dealing with multiple projects, and handling conflict are typical.[[56]](http://en.wikipedia.org/wiki/Job_interview#cite_note-55)

Another type of stress interview may involve only a single interviewer who behaves in an uninterested or hostile manner. For example, the interviewer may not make eye contact, may roll his eyes or sigh at the candidate's answers, interrupt, turn his back, take phone calls during the interview, or ask questions in a demeaning or challenging style. The goal is to assess how the interviewee handles pressure or to purposely evoke emotional responses. This technique was also used in research protocols studying [stress](http://en.wikipedia.org/wiki/Workplace_stress) and type A (coronary-prone) behavior because it would evoke hostility and even changes in [blood pressure](http://en.wikipedia.org/wiki/Blood_pressure) and heart rate in study subjects. The key to success for the candidate is to de-personalize the process. The interviewer is acting a role, deliberately and calculatedly trying to "rattle the cage". Once the candidate realizes that there is nothing personal behind the interviewer's approach, it is easier to handle the questions with aplomb.

Example stress interview questions:

* Sticky situation: "If you caught a colleague cheating on his expenses, what would you do?"
* Putting you on the spot: "How do you feel this interview is going?"
* Popping the balloon: (deep sigh) "Well, if that's the best answer you can give ... " (shakes head) "Okay, what about this one ...?"
* Oddball question: "What would you change about the design of the hockey stick?"
* Doubting your veracity: "I don't feel like we're getting to the heart of the matter here. Start again – tell me what *really* makes you tick."

Candidates may also be asked to deliver a [presentation](http://en.wikipedia.org/wiki/Presentation) as part of the selection process. The "Platform Test" method involves having the candidate make a presentation to both the selection panel and other candidates for the same job. This is obviously highly stressful and is therefore useful as a predictor of how the candidate will perform under similar circumstances on the job. Selection processes in academic, training, airline, legal and teaching circles frequently involve presentations of this sort.

### Technical

This kind of interview focuses on problem solving and creativity. The questions aim at the interviewee's problem-solving skills and likely show their ability and creativity. Sometimes these interviews will be on a computer module with multiple-choice questions.

### Telephone

Telephone interviews take place if a recruiter wishes to reduce the number of prospective candidates before deciding on a [shortlist](http://en.wikipedia.org/wiki/Shortlist) for face-to-face interviews. They also take place if a job applicant is a significant distance away from the premises of the hiring company, such as abroad or in another state or province.

## Interviewee strategies and behaviors

### Nonverbal behaviors

It may not only be what you say in an interview that matters, but also how you say it (e.g., how fast you speak) and how you behave during the interview (e.g., hand gestures, eye contact). In other words, although applicants’ responses to interview questions influence interview ratings,[[57]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Hollandsworth_1979-56) their nonverbal behaviors may also affect interviewer judgments.[[58]](http://en.wikipedia.org/wiki/Job_interview#cite_note-ReferenceA-57) Nonverbal behaviors can be divided into two main categories: vocal cues (e.g., articulation, pitch, fluency, frequency of pauses, speed, etc.) and visual cues (e.g., smiling, eye contact, body orientation and lean, hand movement, posture, etc.).[[59]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DeGroot.2C_T._1999-58) Oftentimes physical attractiveness is included as part of nonverbal behavior as well.[[59]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DeGroot.2C_T._1999-58) There is some debate about how large a role nonverbal behaviors may play in the interview. Some researchers maintain that nonverbal behaviors affect interview ratings a great deal,[[57]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Hollandsworth_1979-56) while others have found that they have a relatively small impact on interview outcomes, especially when considered with applicant qualifications presented in résumés.[[60]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Rasmussen_1984-59) The relationship between nonverbal behavior and interview outcomes is also stronger in structured interviews than unstructured,[[61]](http://en.wikipedia.org/wiki/Job_interview#cite_note-60) and stronger when interviewees’ answers are of high quality.[[60]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Rasmussen_1984-59)

Applicants’ nonverbal behaviors may influence interview ratings through the inferences interviewers make about the applicant based on their behavior. For instance, applicants who engage in positive nonverbal behaviors such as smiling and leaning forward are perceived as more likable, trustworthy, credible,[[59]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DeGroot.2C_T._1999-58) warmer, successful, qualified, motivated, competent,[[62]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Imada.2C_A._S._1977-61) and socially skilled.[[63]](http://en.wikipedia.org/wiki/Job_interview#cite_note-62) These applicants are also predicted to be better accepted and more satisfied with the organization if hired.[[62]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Imada.2C_A._S._1977-61)

Applicants’ verbal responses and their nonverbal behavior may convey some of the same information about the applicant.[[58]](http://en.wikipedia.org/wiki/Job_interview#cite_note-ReferenceA-57) However, despite any shared information between content and nonverbal behavior, it is clear that nonverbal behaviors do predict interview ratings to an extent beyond the content of what was said, and thus it is essential that applicants and interviewers alike are aware of their impact. You may want to be careful of what you may be communicating through the nonverbal behaviors you display.

### Physical attractiveness

To hire the best applicants for the job, interviewers form judgments, sometimes using applicants’ physical attractiveness. That is, physical attractiveness is usually not necessarily related to how well one can do the job, yet has been found to influence interviewer evaluations and judgments about how suitable an applicant is for the job. Once individuals are categorized as attractive or unattractive, interviewers may have expectations about physically attractive and physically unattractive individuals and then judge applicants based on how well they fit those expectations.[[64]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Hosoda.2C_M._2003-63) As a result, it typically turns out that interviewers will judge attractive individuals more favorably on job-related factors than they judge unattractive individuals. People generally agree on who is and who is not attractive and attractive individuals are judged and treated more positively than unattractive individuals.[[65]](http://en.wikipedia.org/wiki/Job_interview#cite_note-64) For example, people who think another is physically attractive tend to have positive initial impressions of that person (even before formally meeting them), perceive the person to be smart, socially competent, and have good social skills and general mental health.[[64]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Hosoda.2C_M._2003-63)

Within the business domain, physically attractive individuals have been shown to have an advantage over unattractive individuals in numerous ways, that include, but are not limited to, perceived job qualifications, hiring recommendations, predicted job success, and compensation levels.[[64]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Hosoda.2C_M._2003-63) As noted by several researchers, attractiveness may not be the most influential determinant of personnel decisions, but may be a deciding factor when applicants possess similar levels of qualifications.[[64]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Hosoda.2C_M._2003-63) In addition, attractiveness does not provide an advantage if the applicants in the pool are of high quality, but it does provide an advantage in increased hiring rates and more positive job-related outcomes for attractive individuals when applicant quality is low and average.[[66]](http://en.wikipedia.org/wiki/Job_interview#cite_note-65)

Just as physical attractiveness is a visual cue, vocal attractiveness is an auditory cue and can lead to differing interviewer evaluations in the interview as well. Vocal attractiveness, defined as an appealing mix of speech rate, loudness, pitch, and variability, has been found to be favorably related to interview ratings and job performance.[[67]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DeGroot.2C_T._2007-66)[[68]](http://en.wikipedia.org/wiki/Job_interview#cite_note-67) In addition, the personality traits of agreeableness and conscientiousness predict performance more strongly for people with more attractive voices compared to those with less attractive voices.[[67]](http://en.wikipedia.org/wiki/Job_interview#cite_note-DeGroot.2C_T._2007-66)

As important as it is to understand how physical attractiveness can influence the judgments, behaviors, and final decisions of interviewers, it is equally important to find ways to decrease potential bias in the job interview. Conducting an interview with elements of structure is a one possible way to decrease bias.[[69]](http://en.wikipedia.org/wiki/Job_interview#cite_note-68)

### Coaching

An abundance of information is available to instruct interviewees on strategies for improving their performance in a job interview. Information used by interviewees comes from a variety of sources ranging from popular how-to books to formal coaching programs, sometimes even provided by the hiring organization. Within the more formal coaching programs, there are two general types of coaching. One type of coaching is designed to teach interviewees how to perform better in the interview by focusing on how to behave and present oneself. This type of coaching is focused on improving aspects of the interview that are not necessarily related to the specific elements of performing the job tasks. This type of coaching could include how to dress, how to display nonverbal behaviors (head nods, smiling, eye contact), verbal cues (how fast to speak, speech volume, articulation, pitch), and impression management tactics. Another type of coaching is designed to focus interviewees on the content specifically relevant to describing one’s qualifications for the job, in order to help improve their answers to interview questions. This coaching, therefore, focuses on improving the interviewee’s understanding of the skills, abilities, and traits the interviewer is attempting to assess, and responding with relevant experience that demonstrates these skills.[[70]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Maurer.2C_T._2008-69)For example, this type of coaching might teach an interviewee to use the STAR approach for answering behavioral interview questions. An example coaching program might include several sections focusing on various aspects of the interview. It could include a section designed to introduce interviewees to the interview process, and explain how this process works (e.g., administration of interview, interview day logistics, different types of interviews, advantages of structured interviews). It could also include a section designed to provide feedback to help the interviewee to improve their performance in the interview, as well as a section involving practice answering example interview questions. An additional section providing general interview tips about how to behave and present oneself could also be included.[[71]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Maurer.2C_T._2006-70)

It is useful to consider coaching in the context of the competing goals of the interviewer and interviewee. The interviewee’s goal is typically to perform well (i.e. obtain high interview ratings), in order to get hired. On the other hand, the interviewer’s goal is to obtain job-relevant information, in order to determine whether the applicant has the skills, abilities, and traits believed by the organization to be indicators of successful job performance.[[70]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Maurer.2C_T._2008-69) Research has shown that how well an applicant does in the interview can be enhanced with coaching.[[70]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Maurer.2C_T._2008-69)[[72]](http://en.wikipedia.org/wiki/Job_interview#cite_note-71)[[73]](http://en.wikipedia.org/wiki/Job_interview#cite_note-72)[[74]](http://en.wikipedia.org/wiki/Job_interview#cite_note-73) The effectiveness of coaching is due, in part, to increasing the interviewee’s knowledge, which in turn results in better interview performance. Interviewee knowledge refers to knowledge about the interview, such as the types of questions that will be asked, and the content that the interviewer is attempting to assess.[[75]](http://en.wikipedia.org/wiki/Job_interview#cite_note-74) Research has also shown that coaching can increase the likelihood that interviewers using a structured interview will accurately choose those individuals who will ultimately be most successful on the job (i.e., increase reliability and validity of the structured interview).[[70]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Maurer.2C_T._2008-69) Additionally, research has shown that interviewees tend to have positive reactions to coaching, which is often an underlying goal of an interview.[[71]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Maurer.2C_T._2006-70) Based on research thus far, the effects of coaching tend to be positive for both interviewees and interviewers.

### Faking

Interviewers should be aware that applicants can intentionally distort their responses or fake during the interview and such applicant faking has the potential to influence interview outcomes if present. Two concepts that relate to faking include social desirability (the tendency for people to present themselves in a favorable light [[76]](http://en.wikipedia.org/wiki/Job_interview#cite_note-75)), and impression management (conscious or unconscious attempts to influence one’s image during interactions [[77]](http://en.wikipedia.org/wiki/Job_interview#cite_note-76)). Faking in the employment interview, then, can be defined as “deceptive impression management or the conscious distortion of answers to the interview questions in order to obtain a better score on the interview and/or otherwise create favorable perceptions”.[[78]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Levashina.2C_J._2007-77) Thus, faking in the employment interview is intentional, deceptive, and aimed at improving perceptions of performance.

Faking in the employment interview can be broken down into four elements.[[78]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Levashina.2C_J._2007-77) The first involves the interviewee portraying him or herself as an ideal job candidate by exaggerating true skills, tailoring answers to better fit the job, and/or creating the impression that personal beliefs, values, and attitudes are similar to those of the organization.

The second aspect of faking is inventing or completely fabricating one’s image by piecing distinct work experiences together to create better answers, inventing untrue experiences or skills, and portraying others’ experiences or accomplishments as ones’ own.

Thirdly, faking might also be aimed at protecting the applicant’s image. This can be accomplished through omitting certain negative experiences, concealing negatively perceived aspects of the applicant’s background, and by separating oneself from negative experiences.

The fourth and final component of faking involves ingratiating oneself to the interviewer by conforming personal opinions to align with those of the organization, as well as insincerely praising or complimenting the interviewer or organization.

Of all of the various faking behaviors listed, ingratiation tactics were found to be the most prevalent in the employment interview, while flat out making up answers or claiming others’ experiences as one’s own is the least common.[[78]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Levashina.2C_J._2007-77) However, fabricating true skills appears to be at least somewhat prevalent in employment interviews. One study found that over 80% of participants lied about job-related skills in the interview,[[79]](http://en.wikipedia.org/wiki/Job_interview#cite_note-78) presumably to compensate for a lack of job-required skills/traits and further their chances for employment.

Most importantly, faking behaviors have been shown to affect outcomes of employment interviews. For example, the probability of getting another interview or job offer increases when interviewees make up answers.[[78]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Levashina.2C_J._2007-77)

Different interview characteristics also seem to impact the likelihood of faking. Faking behavior is less prevalent, for instance, in past behavioral interviews than in situational interviews, although follow-up questions increased faking behaviors in both types of interviews. Therefore, if practitioners are interested in decreasing faking behaviors among job candidates in employment interview settings, they should utilize structured, past behavioral interviews and avoid the use of probes or follow-up questions.[[78]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Levashina.2C_J._2007-77)

## Validity and predictive power

There is extant data[[80]](http://en.wikipedia.org/wiki/Job_interview#cite_note-79) which puts into question the value of job interviews as a tool for selecting employees. Where the aim of a job interview is ostensibly to choose a candidate who will perform well in the job role, other methods of selection provide greater predictive power and often lower costs.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] Furthermore, given the unstructured approach of most interviews they often have almost no useful predictive power of employee success.

While unstructured interviews are commonly used, structured interviews have yielded much better results and are considered a best practice.[[81]](http://en.wikipedia.org/wiki/Job_interview#cite_note-80) Interview structure is defined as “the reduction in procedural variance across applicants, which can translate into the degree of discretion that an interviewer is allowed in conducting the interview”.[[82]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._1994-81) Structure in an interview can be compared to a typical paper and pencil test: we would not think it was fair if every test taker was given different questions and a different number of questions on an exam, or if their answers were each graded differently. Yet this is exactly what occurs in an unstructured interview; thus, a structured interview attempts to standardize this popular selection tool. While there is debate surrounding what is meant specifically by a structured interview,[[83]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Macan.2C_T._2009-82) there are typically two broad categories of standardization: 1) content structure, and 2) evaluation structure.[[84]](http://en.wikipedia.org/wiki/Job_interview#cite_note-83) Content structure includes elements that refer to the actual content of the interview:

* Base questions on attributes that are representative of the job, as indicated by a [job analysis](http://en.wikipedia.org/wiki/Job_analysis)
* Ask the same questions of all interviewees
* Limit prompting, or follow up questions, that interviewers may ask
* Ask better questions, such as behavioral description questions
* Have a longer interview
* Control ancillary information available to the interviewees, such as resumes
* Don’t allow questions from applicants during interview

Evaluation structure includes aspects that refer to the actual rating of the interviewee:

* Rate each answer rather than making an overall evaluation at the end of the interview
* Use anchored rating scales (for an example, see BARS )
* Have the interviewer take detailed notes
* Have more than one interviewer view each applicant (i.e. have panel interviews)
* Have the same interviewers rate each applicant
* Don’t allow any discussion about the applicants between interviewers
* Train the interviewers
* Use statistical procedures to create an overall interview score

It is important to note that structure should be thought of as a continuum; that is, the degree of structure present in an interview can vary along these various elements listed above.[[83]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Macan.2C_T._2009-82)

In terms of reliability, meta-analytic results provided evidence that interviews can have acceptable levels of interrater reliability, or consistent ratings across interviewers [interrater reliability](http://en.wikipedia.org/wiki/Interrater_reliability) (i.e. .75 or above), when a structured panel interview is used.[[85]](http://en.wikipedia.org/wiki/Job_interview#cite_note-84) In terms of criterion-related validity, or how well the interview predicts later job performance [criterion validity](http://en.wikipedia.org/wiki/Criterion_validity), meta-analytic results have shown that when compared to unstructured interviews, structured interviews have higher validities, with values ranging from .20-.57 (on a scale from 0 to 1), with validity coefficients increasing with higher degrees of structure.[[82]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._1994-81)[[86]](http://en.wikipedia.org/wiki/Job_interview#cite_note-85)[[87]](http://en.wikipedia.org/wiki/Job_interview#cite_note-86) That is, as the degree of structure in an interview increases, the more likely interviewers can successfully predict how well the person will do on the job, especially when compared to unstructured interviews. In fact, one structured interview that included a) a predetermined set of questions that interviewers were able to choose from, and b) interviewer scoring of applicant answers after each individual question using previously created benchmark answers, showed validity levels comparable to cognitive ability tests (traditionally one of the best predictors of job performance) for entry level jobs.[[82]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Huffcutt.2C_A._I._1994-81)

Honesty and integrity are attributes that can be very hard to determine using a formal job interview process: the competitive environment of the job interview may in fact promote dishonesty. Some experts on job interviews express a degree of cynicism towards the process.[[*who?*](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)]

## Legal issues

In many countries laws are put into place to prevent organizations from engaging in discriminatory practices against protected classes when selecting individuals for jobs.[[88]](http://en.wikipedia.org/wiki/Job_interview#cite_note-87) In the United States, it is unlawful for private employers with 15 or more employees along with state and local government employers to discriminate against applicants based on the following: race, color, sex (including pregnancy), national origin, age (40 or over), disability, or genetic information (note: additional classes may be protected depending on state or local law). More specifically, an employer cannot legally “fail or refuse to hire or to discharge any individual, or otherwise discriminate against any individual with respect to his compensation, terms, conditions, or privilege of employment” or “to limit, segregate, or classify his employees or applicants for employment in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee.”[[89]](http://en.wikipedia.org/wiki/Job_interview#cite_note-88)[[90]](http://en.wikipedia.org/wiki/Job_interview#cite_note-89)

The [Civil Rights Act of 1964](http://en.wikipedia.org/wiki/Civil_Rights_Act_of_1964) and [1991](http://en.wikipedia.org/wiki/Civil_Rights_Act_of_1991) (Title VII) were passed into law to prevent the discrimination of individuals due to race, color, religion, sex, or national origin. The Pregnancy Discrimination Act was added as an amendment and protects women if they are pregnant or have a pregnancy-related condition.[[91]](http://en.wikipedia.org/wiki/Job_interview#cite_note-EEOC-90)

The [Age Discrimination in Employment Act](http://en.wikipedia.org/wiki/Age_Discrimination_in_Employment_Act) of 1967 prohibits discriminatory practice directed against individuals who are 40 years of age and older. Although some states (e.g. New York) do have laws preventing the discrimination of individuals younger than 40, no federal law exists.[[92]](http://en.wikipedia.org/wiki/Job_interview#cite_note-91)

The [Americans with Disabilities Act of 1990](http://en.wikipedia.org/wiki/Americans_with_Disabilities_Act_of_1990) protects qualified individuals who currently have or in the past have had a physical or mental disability (current users of illegal drugs are not covered under this Act). A person may be disabled if he or she has a disability that substantially limits a major life activity, has a history of a disability, is regarded by others as being disabled, or has a physical or mental impairment that is not transitory (lasting or expected to last six months or less) and minor. In order to be covered under this Act, the individual must be qualified for the job. A qualified individual is “an individual with a disability who, with or without reasonable accommodation, can perform the essential functions of the employment position that such individual holds or desires.”[[93]](http://en.wikipedia.org/wiki/Job_interview#cite_note-disability-92) Unless the disability poses an “undue hardship,” reasonable accommodations must be made by the organization. “In general, an accommodation is any change in the work environment or in the way things are customarily done that enables an individual with a disability to enjoy equal employment opportunities.”[[93]](http://en.wikipedia.org/wiki/Job_interview#cite_note-disability-92) Examples of reasonable accommodations are changing the workspace of an individual in a wheelchair to make it more wheelchair accessible, modifying work schedules, and/or modifying equipment.[[94]](http://en.wikipedia.org/wiki/Job_interview#cite_note-93) Employees are responsible for asking for accommodations to be made by their employer.[[91]](http://en.wikipedia.org/wiki/Job_interview#cite_note-EEOC-90)

The most recent law to be passed is Title II of the [Genetic Information Nondiscrimination Act](http://en.wikipedia.org/wiki/Genetic_Information_Nondiscrimination_Act) of 2008. In essence, this law prohibits the discrimination of employees or applicants due to an individual’s genetic information and family medical history information.

In rare circumstances, it is lawful for employers to base hiring decisions on protected class information if it is considered a [Bona Fide Occupational Qualification](http://en.wikipedia.org/wiki/Bona_Fide_Occupational_Qualification), that is, if it is a “qualification reasonably necessary to the normal operation of the particular business.” For example, a movie studio may base a hiring decision on age if the actor they are hiring will play a youthful character in a film.[[95]](http://en.wikipedia.org/wiki/Job_interview#cite_note-94)

Given these laws, organizations are limited in the types of questions they legally are allowed to ask applicants in a job interview. Asking these questions may cause discrimination against protected classes, unless the information is considered a Bona Fide Occupational Qualification. For example, in the majority of situations it is illegal to ask the following questions in an interview as a condition of employment:

* What is your date of birth?[[96]](http://en.wikipedia.org/wiki/Job_interview#cite_note-legal1-95)
* Have you ever been arrested for a crime?[[96]](http://en.wikipedia.org/wiki/Job_interview#cite_note-legal1-95)
* Do you have any future plans for marriage and children?[[96]](http://en.wikipedia.org/wiki/Job_interview#cite_note-legal1-95)
* What are your spiritual beliefs?[[97]](http://en.wikipedia.org/wiki/Job_interview#cite_note-legal2-96)
* How many days were you sick last year? Have you ever been treated for mental health problems?[[97]](http://en.wikipedia.org/wiki/Job_interview#cite_note-legal2-96)
* What prescription drugs are you currently taking?[[97]](http://en.wikipedia.org/wiki/Job_interview#cite_note-legal2-96)

### Applicants with disabilities

Applicants with disabilities may be concerned with the effect that their disability has on both interview and employment outcomes. Research has concentrated on four key issues: how interviewers rate applicants with disabilities, the reactions of applicants with disabilities to the interview, the effects of disclosing a disability during the interview, and the perceptions different kinds of applicant disabilities may have on interviewer ratings.

The job interview is a tool used to measure constructs or overall characteristics that are relevant for the job. Oftentimes, applicants will receive a score based on their performance during the interview. Research has found different findings based on interviewers’ perceptions of the disability. For example, some research has found a leniency effect (i.e., applicants with disabilities receive higher ratings than equally qualified non-disabled applicants) in ratings of applicants with disabilities [[98]](http://en.wikipedia.org/wiki/Job_interview#cite_note-97)[[99]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Nordstrom-98) Other research, however, has found there is a disconnect between the interview score and the hiring recommendation for applicants with disabilities. That is, even though applicants with disabilities may have received a high interview score, they are still not recommended for employment.[[100]](http://en.wikipedia.org/wiki/Job_interview#cite_note-99)[[101]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Miceli.2C_N._S._2002-100) The difference between ratings and hiring could be detrimental to a company because they may be missing an opportunity to hire a qualified applicant.

A second issue in interview research deals with the applicants’ with disabilities reactions to the interview and applicant perceptions of the interviewers. Applicants with disabilities and able-bodied applicants report similar feelings of anxiety towards an interview.[[102]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Duckett-101) Applicants with disabilities often report that interviewers react nervously and insecurely, which leads such applicants to experience anxiety and tension themselves. The interview is felt to be the part of the selection process where covert discrimination against applicants with disabilities can occur.[[102]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Duckett-101) Many applicants with disabilities feel they cannot disclose (i.e., inform potential employer of disability) or discuss their disability because they want to demonstrate their abilities. If the disability is visible, then disclosure will inevitably occur when the applicant meets the interviewer, so the applicant can decide if they want to discuss their disability. If an applicant has a non-visible disability, however, then that applicant has more of a choice in disclosing and discussing. In addition, applicants who were aware that the recruiting employer already had employed people with disabilities felt they had a more positive interview experience.[[102]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Duckett-101) Applicants should consider if they are comfortable with talking about and answering questions about their disability before deciding how to approach the interview.

Research has also demonstrated that different types of disabilities have different effects on interview outcomes. Disabilities with a negative stigma and that are perceived as resulting from the actions of the person (e.g., HIV-Positive, substance abuse) result in lower interview scores than disabilities for which the causes are perceived to be out of the individual’s control (e.g., physical birth defect).[[101]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Miceli.2C_N._S._2002-100) A physical disability often results in higher interviewer ratings than psychological (e.g., mental illness) or sensory conditions (e.g., Tourette Syndrome).[[99]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Nordstrom-98)[[103]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Dalgin-102) In addition, there are differences between the effects of disclosing disabilities that are visible (e.g., wheelchair bound) and non-visible (e.g., Epilepsy) during the interview. When applicants had a non-visible disability and disclosed their disability early in the interview they were not rated more negatively than applicants who did not disclose. In fact, they were liked more than the applicants who did not disclose their disability and were presumed not disabled.[[104]](http://en.wikipedia.org/wiki/Job_interview#cite_note-103) Interviewers tend to be impressed by the honesty of the disclosure.[[103]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Dalgin-102) Strong caution needs to be taken with applying results from studies about specific disabilities, as these results may not apply to other types of disabilities. Not all disabilities are the same and more research is needed to find whether these results are relevant for other types of disabilities.

Some practical implications for job interviews for applicants with disabilities include research findings that show there are no differences in interviewer responses to a brief, shorter discussion or a detailed, longer discussion about the disability during the interview.[[103]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Dalgin-102) Applicants, however, should note that when a non-visible disability is disclosed near the end of the interview, applicants were rated more negatively than early disclosing and non-disclosing applicants. Therefore it is possible that interviewers feel individuals who delay disclosure may do so out of shame or embarrassment. In addition, if the disability is disclosed after being hired, employers may feel deceived by the new hire and reactions could be less positive than would have been in the interview.[[105]](http://en.wikipedia.org/wiki/Job_interview#cite_note-104) If applicants want to disclose their disability during the interview, research shows that a disclosure and/or discussion earlier in the interview approach may afford them some positive interview effects.[[106]](http://en.wikipedia.org/wiki/Job_interview#cite_note-105) The positive effects, however, are preceded by the interviewers perception of the applicants’ psychological well-being. That is, when the interviewer perceives the applicant is psychologically well and/or comfortable with his or her disability, there can be positive interviewer effects. In contrast, if the interviewer perceives the applicant as uncomfortable or anxious discussing the disability, this may either fail to garner positive effect or result in more negative interview ratings for the candidate. Caution must again be taken when applying these research findings to other types of disabilities not investigated in the studies discussed above. There are many factors that can influence the interview of an applicant with a disability, such as whether the disability is physical or psychological, visible or non-visible, or whether the applicant is perceived as responsible for the disability or not. Therefore applicants should make their own conclusions about how to proceed in the interview after comparing their situations with those examined in the research discussed here.

### Other applicant discrimination: Weight and pregnancy

Employers are using social networking sites like Facebook and LinkedIn to obtain additional information about job applicants.[[107]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Cross-106)[[108]](http://en.wikipedia.org/wiki/Job_interview#cite_note-JobVite-107)[[109]](http://en.wikipedia.org/wiki/Job_interview#cite_note-SHRM-108) While these sites may be useful to verify resume information, profiles with pictures also may reveal much more information about the applicant, including issues pertaining to applicant weight and pregnancy.[[110]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Grasz-109)

Job applicants who are underweight (to the point of emaciation), overweight or obese may face discrimination in the interview.[[111]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Roehling-110)[[112]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Swami-111) The negative treatment of overweight and obese individuals may stem from the beliefs that weight is controllable and those who fail to control their weight are lazy, unmotivated, and lack self-discipline.[[113]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Greenleaf-112) Alternatively, underweight individuals may be negatively treated partly due to their lack of physical attractiveness.[[112]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Swami-111) These characteristics, lazy, unmotivated, lacks self-discipline, physically unattractive are not ideal for a future employee.[[114]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Bellizzi-113) Underweight, overweight and obese applicants are not protected from discrimination by any current United States laws.[[111]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Roehling-110) However, some individuals who are morbidly obese and whose obesity is due to a physiological disorder may be protected against discrimination under the Americans with Disabilities Act.[[115]](http://en.wikipedia.org/wiki/Job_interview#cite_note-King-114) In short, men and women should be aware that their weight, whether underweight, overweight or obese, could hinder their chances of getting hired.

Pregnant job applicants are a group that may face discrimination because of their “disability”. Discrimination against pregnant applicants is illegal under the Pregnancy Discrimination Act of 1978, which views pregnancy as a temporary disability and requires employers to treat pregnant applicants the same as all other applicants.[[116]](http://en.wikipedia.org/wiki/Job_interview#cite_note-US-115) Yet, discrimination against pregnant applicants continues both in the United States and internationally.[[116]](http://en.wikipedia.org/wiki/Job_interview#cite_note-US-115)[[117]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Gatrell-116) Research shows that pregnant applicants compared to non-pregnant applicants are less likely to be recommended for hire.[[118]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Bragger-117)[[119]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Cunningham-118)Interviewers appear concerned that pregnant applicants are more likely than non-pregnant applicants to miss work and even quit.[[119]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Cunningham-118) Organizations who wish to reduce potential discrimination against pregnant applicants should consider implementing structured interviews, although some theoretical work suggests interviewers may still show biases even in these types of interviews.[[118]](http://en.wikipedia.org/wiki/Job_interview#cite_note-Bragger-117)[[120]](http://en.wikipedia.org/wiki/Job_interview#cite_note-119)

# Onboarding

**Onboarding**, also known as **organizational socialization**, refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviors to become effective organizational members and insiders.[[1]](http://en.wikipedia.org/wiki/Onboarding#cite_note-orgsocial-0) Tactics used in this process include formal meetings, lectures, videos, printed materials, or computer-based orientations to introduce newcomers to their new jobs and organizations. Research has demonstrated that these socialization techniques lead to positive outcomes for new employees such as higher [job satisfaction](http://en.wikipedia.org/wiki/Job_satisfaction), better [job performance](http://en.wikipedia.org/wiki/Job_performance), greater [organizational commitment](http://en.wikipedia.org/wiki/Organizational_commitment), and reduction in [stress](http://en.wikipedia.org/wiki/Workplace_stress) and intent to quit.[[2]](http://en.wikipedia.org/wiki/Onboarding#cite_note-Ashford.2C_S._J._1996-1)[[3]](http://en.wikipedia.org/wiki/Onboarding#cite_note-KammeyerMueller2003-2)[[4]](http://en.wikipedia.org/wiki/Onboarding#cite_note-Fisher.2C_C._D._1985-3) These outcomes are particularly important to an organization looking to retain a competitive advantage in an increasingly mobile and globalized workforce. In the United States, for example, up to 25% of workers are organizational newcomers engaged in an onboarding process.[[5]](http://en.wikipedia.org/wiki/Onboarding#cite_note-4)

## Antecedents of success

Onboarding is a multifaceted operation influenced by a number of factors pertaining to both the individual newcomer and the organization. Researchers have separated these factors into three broad categories: new employee characteristics, new employee behaviors, and organizational efforts.[[6]](http://en.wikipedia.org/wiki/Onboarding#cite_note-bauer2007-5) New employee characteristics are individual differences across incoming workers, ranging from personality traits to previous work experiences. New employee behaviors refer to the specific actions carried out by newcomers as they take an active role in the socialization process. Finally, organizational efforts help facilitate the process of acclimating a new worker to an establishment through activities such as orientation or mentoring programs.

### New employee characteristics

Research has shown evidence that employees with certain [personality](http://en.wikipedia.org/wiki/Personality_psychology) traits and experiences adjust to an organization more quickly.[[7]](http://en.wikipedia.org/wiki/Onboarding#cite_note-6) These are a proactive personality, the ["Big Five"](http://en.wikipedia.org/wiki/Big_Five_personality_traits), curiosity, and greater experience levels.

"Proactive personality" refers to the tendency to take charge of situations and achieve control over one's environment. This type of personality predisposes some workers to engage in behaviors such as information seeking that accelerate the socialization process, thus helping them to adapt more efficiently and become high-functioning organizational members.[[1]](http://en.wikipedia.org/wiki/Onboarding#cite_note-orgsocial-0) Empirical evidence also demonstrates that a proactive personality is related to increased levels of job satisfaction and performance.[[8]](http://en.wikipedia.org/wiki/Onboarding#cite_note-7)[[9]](http://en.wikipedia.org/wiki/Onboarding#cite_note-8)

The [Big Five personality traits](http://en.wikipedia.org/wiki/Big_Five_personality_traits)—openness, conscientiousness, extraversion, agreeableness, and neuroticism—have been linked to onboarding success, as well. Specifically, new employees who are extraverted or particularly open to experience are more likely to seek out information, feedback, acceptance, and relationships with co-workers. They also exhibit higher levels of adjustment and tend to frame events more positively.[[3]](http://en.wikipedia.org/wiki/Onboarding#cite_note-KammeyerMueller2003-2)

Curiosity also plays a substantial role in the newcomer adaptation process and is defined as the "desire to acquire knowledge" that energizes individual exploration of an organization's culture and norms.[[10]](http://en.wikipedia.org/wiki/Onboarding#cite_note-9) Individuals with a curious disposition tend to frame challenges in a positive light and eagerly seek out information to help them make sense of their new organizational surroundings and responsibilities, leading to a smoother onboarding experience.[[11]](http://en.wikipedia.org/wiki/Onboarding#cite_note-10)

Employee experience levels also affect the onboarding process such that more experienced members of the workforce tend to adapt to a new organization differently from, for example, a new college graduate starting his or her first job. This is because seasoned employees can draw from past experiences to help them adjust to their new work settings and therefore may be less affected by specific socialization efforts because they have (a) a better understanding of their own needs and requirements at work[[12]](http://en.wikipedia.org/wiki/Onboarding#cite_note-11) and (b) are more familiar with what is acceptable in the work context.[[13]](http://en.wikipedia.org/wiki/Onboarding#cite_note-12)[[14]](http://en.wikipedia.org/wiki/Onboarding#cite_note-13) Additionally, veteran workers may have used their past experiences to seek out organizations in which they will be a better fit, giving them an immediate advantage in adapting to their new jobs.[[15]](http://en.wikipedia.org/wiki/Onboarding#cite_note-14)

### New employee behaviors

Certain behaviors enacted by incoming employees, such as building relationships and seeking information and feedback, can help facilitate the onboarding process. Newcomers can also quicken the speed of their adjustment by demonstrating behaviors that assist them in clarifying expectations, learning organizational values and norms, and gaining social acceptance.[[1]](http://en.wikipedia.org/wiki/Onboarding#cite_note-orgsocial-0)

[Information seeking](http://en.wikipedia.org/wiki/Information_seeking) occurs when new employees ask questions of their co-workers and superiors in an effort to learn about their new job and the company's norms, expectations, procedures, and policies. Miller and Jablin (1991) developed a typology of information sought after by new hires. These include referent information, understanding what is required to function on the job (role clarity); appraisal information, understanding how effectively the newcomer is able to function in relation to job role requirements (self-efficacy); and finally, relational information, information about the quality of relationships with current organizational employees (social acceptance). By actively seeking information, employees can effectively reduce uncertainties about their new jobs and organizations and make sense of their new working environments.[[16]](http://en.wikipedia.org/wiki/Onboarding#cite_note-15) Newcomers can also passively seek information via monitoring their surroundings or by simply viewing the company website or handbook.[[1]](http://en.wikipedia.org/wiki/Onboarding#cite_note-orgsocial-0) Research has shown that information seeking by incoming employees is associated with social integration, higher levels of organizational commitment, job performance, and job satisfaction in both individualistic and collectivist cultures.[[17]](http://en.wikipedia.org/wiki/Onboarding#cite_note-16)

Feedback seeking is similar to information seeking, but it is focused on a new employee's particular behaviors rather than on general information about the job or company. Specifically, feedback seeking refers to new employee efforts to gauge how to behave in their new organization. A new employee may ask co-workers or superiors for feedback on how well he or she is performing certain job tasks or whether certain behaviors are appropriate in the social and political context of the organization. In seeking constructive criticism about their actions, new employees learn what kinds of behaviors are expected, accepted, or frowned upon within the company or work group, and when they incorporate this feedback and adjust their behavior accordingly, they begin to blend seamlessly into the organization.[[18]](http://en.wikipedia.org/wiki/Onboarding#cite_note-17) Instances of feedback inquiry vary across cultural contexts such that individuals high in self-assertiveness and cultures low in [power distance](http://en.wikipedia.org/wiki/Power_distance) report more feedback seeking than newcomers in cultures where self-assertiveness is low and power distance is high.[[19]](http://en.wikipedia.org/wiki/Onboarding#cite_note-18)

Also called [networking](http://en.wikipedia.org/wiki/Business_networking), relationship building involves an employee's efforts to develop camaraderie with co-workers and even supervisors. This can be achieved informally through simply talking to their new peers during a coffee break or through more formal means such as taking part in pre-arranged company events. Research has shown relationship building to be a key part of the onboarding process, leading to outcomes such as greater [job satisfaction](http://en.wikipedia.org/wiki/Job_satisfaction) and better [job performance](http://en.wikipedia.org/wiki/Job_performance),[[2]](http://en.wikipedia.org/wiki/Onboarding#cite_note-Ashford.2C_S._J._1996-1) as well as decreased [stress](http://en.wikipedia.org/wiki/Workplace_stress).[[4]](http://en.wikipedia.org/wiki/Onboarding#cite_note-Fisher.2C_C._D._1985-3)

### Organization socialization efforts

Organizations also invest a great amount of time and resources into the training and orientation of new company hires. [[20]](http://en.wikipedia.org/wiki/Onboarding#cite_note-19) Organizations differ in the variety of socialization activities they offer in order to integrate productive new workers. Possible activities include their socialization tactics, formal orientation programs, recruitment strategies, and mentorship opportunities.

#### Socialization tactics

Socialization tactics, or orientation tactics, are designed based on an organization's needs, values, and structural policies. Some organizations favor a more systematic approach to socialization, while others follow a more "sink or swim" approach in which new employees are challenged to figure out existing norms and company expectations without guidance.

**Van Maanen and Schein model (1979)**

John Van Maanen and Edgar H. Schein have identified at least six major tactical dimensions that characterize and represent all of the ways in which organizations may differ in their approaches to socialization.

**Collective versus Individual socialization**

Collective socialization refers to the process of taking a group of recruits who are facing a given boundary passage and putting them through the same set of experiences together. Examples of this include: basic training/boot camp for a military organization, pledging for fraternities/sororities, education in graduate schools, and so forth. Socialization in the Individual mode allows newcomers to accumulate unique experiences separate from other newcomers. Examples of this process include: Apprenticeship programs, specific internships, “on-the-job” training, etc.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

**Formal vs. Informal socialization**

Formal socialization refers to those tactics in which newcomers are more or less segregated from others and trained of the job. These processes can be witnessed with such socialization programs as police academies, internships, and apprenticeships. Informal socialization processes, on the other hand, involve little separation between newcomers and the existing employees, nor is there any effort made to distinguish the newcomer’s role specifically. Informal tactics provides a non-interventional environment for recruits to learn their new roles via trial and error. Examples of informal socialization include on-the-job training assignments, apprenticeship programs with no clearly defined role, and more generally, any situation in which a newcomer is placed into a work group with no recruit role.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

**Sequential vs. Random socialization**

Sequential socialization refers to the degree to which an organization or occupation specifies discrete and identifiable steps for the newcomers to know what phases they need to go through. Random socialization occurs when the sequences of steps leading to the targeted role are unknown, and the entire progression is quite ambiguous. In other words, while there are numerous steps or stages leading to specific organizational roles, there is necessarily no specific order in which the steps should be taken.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

**Fixed vs. Variable socialization**

This dimension refers to the extent to which the steps have a timetable developed by the organization and communicated to the recruit in order to convey when the socialization process is complete. Fixed socialization provides a recruit with the exact knowledge of the time it will take complete a given passage. For instance, some management trainees can be put on “ fast tracks” where they are required to accept new rotational assignment on an annual basis despite their own preferences. Variable socialization processes gives a newcomer no specific timetable, but a few clues as to when to expect a given boundary passage. This type of socialization is commonly associated upwardly mobile careers within business organizations because of several uncontrolled factors such as the state of the economy or turnover rates which determine whether any given newcomer will be promoted to a higher level or not.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

**Serial vs. Disjunctive socialization**

A serial socialization process refers to experienced members of the organization grooming the newcomers who are about to occupy similar positions within the organization. These experience members essentially serve as role models for the inexperienced newcomers. A prime example of serial socialization would be a rookie police officer getting assigned patrol duties with an experienced veteran who has been in law enforcement for a lengthy period of time. Disjunctive socialization, in contrast, refers to when newcomers are not following the guidelines of their predecessors, and there are no role models to inform new recruits on how to fulfill their duties.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

**Investiture vs. Divestiture socialization**

This tactic refers to the degree to which a socialization process either affirms or disaffirms the identity of the newly entering recruit. Investiture socialization processes sanction and document for newcomers the viability and efficacy of the personal characteristics that they bring to the organization. When organizations use this socialization process it prefers that the recruit remains the exact way that he or she naturally behaves and the organization merely makes use of the skills, values, and attitudes that the recruit is believed to have in their possession. Divestiture socialization, on the other hand, is a process that organizations use to reject and remove the certain personal characteristics of a recruit. Many occupations and organizations require newcomers to sever previous ties, and forget old habits in order to create a new self-image based upon new assumptions.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

Thus, tactics influence the socialization process by defining the type of information newcomers receive, the source of this information, and the ease of obtaining it.[[21]](http://en.wikipedia.org/wiki/Onboarding#cite_note-vanmaanenschein-20)

#### Jones's model (1986)

Building upon the work of Van Maanen and Schein, Jones (1986) proposed that the previous six dimensions could be reduced to two categories: institutionalized and individualized socialization. Companies that use institutionalized socialization tactics implement structured step-by-step programs, enter into an orchestrated orientation as a group, and receive help from an assigned role model or mentor. Examples of organizations using institutionalized tactics include the military, in which new recruits undergo extensive training and socialization activities through a participative cohort, as well as incoming freshmen at universities, who may attend orientation weekends before beginning classes.

On the opposite end of the spectrum, other organizations use individualized socialization tactics in which the new employee immediately starts working on his or her new position and figures out company norms, values, and expectations along the way. In this orientation system, individuals must play a more proactive role in seeking out information and initiating work relationships.[[22]](http://en.wikipedia.org/wiki/Onboarding#cite_note-jones1986-21)

#### Formal orientations

Regardless of the socialization tactics utilized, formal orientation programs can facilitate understanding of [company culture](http://en.wikipedia.org/wiki/Company_culture), and introduces new employees to their work roles and the organizational social environment. Formal orientation programs may consist of lectures, videotapes, and written material, while other organizations may rely on more usual approaches. More recent approaches such as computer-based orientations and Intranets have been used by organizations to standardize training programs across branch locations. A review of the literature indicates that orientation programs are successful in communicating the company's goals, history, and power structure.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

#### Recruitment events

[Recruitment](http://en.wikipedia.org/wiki/Recruitment) events play a key role in identifying which prospective employees are a good fit with an organization. Recruiting events allow employees to gather initial information about an organization's expectations and company culture. By providing a realistic job preview of what life inside the organization is like, companies can weed out potential employees who are clearly a misfit to an organization and individuals can identify which employment agencies are the most suitable match for their own personal values, goals, and expectations. Research has shown that new employees who receive a great amount of accurate information about the job and the company tend to adjust better.[[23]](http://en.wikipedia.org/wiki/Onboarding#cite_note-22) Organizations can also provide realistic job previews by offering internship opportunities.

#### Mentorship

[Mentorship](http://en.wikipedia.org/wiki/Mentorship) has demonstrated importance in the socialization of new employees.[[24]](http://en.wikipedia.org/wiki/Onboarding#cite_note-chatman1991-23)[[25]](http://en.wikipedia.org/wiki/Onboarding#cite_note-24) Ostroff and Kozlowski (1993) discovered that newcomers with mentors become more knowledgeable about the organization than did newcomers without mentors. Mentors can help newcomers better manage their expectations and feel comfortable with their new environment through advice-giving and social support.[[26]](http://en.wikipedia.org/wiki/Onboarding#cite_note-25) Chatman (1991) found that newcomers are more likely to have internalized the key values of their organization's culture if they had spent time with an assigned mentor and attended company social events. Literature has also suggested the importance of demographic matching between organizational mentors and protégés.[[24]](http://en.wikipedia.org/wiki/Onboarding#cite_note-chatman1991-23) Enscher& Murphy (1997) examined the effects of similarity (race and gender) on the amount of contact and quality of mentor relationships. Results indicate that liking, satisfaction, and contact were higher in conditions of perceived mentor-protégé similarity.[[27]](http://en.wikipedia.org/wiki/Onboarding#cite_note-26)

## Employee adjustment

In order to increase the success of an onboarding program, it is important for an organization to monitor how well their new hires are adjusting to their new roles, responsibilities, peers, supervisors, and the organization at large. Researchers have noted that role clarity, self-efficacy, social acceptance, and knowledge of organizational culture are particularly good indicators of well-adjusted new employees who have benefitted from an effective onboarding system.

### Role clarity

Role clarity describes a new employee's understanding of his or her job responsibilities and organizational role. One of the goals of an onboarding process is to aid newcomers in reducing ambiguity and uncertainty so that it is easier for them to get their jobs done correctly and efficiently. A poor onboarding program, for example, may produce employees who exhibit sub-par productivity because they are unsure of their exact roles and responsibilities. On the other hand, a strong onboarding program would produce employees who are especially productive because they know exactly what is expected of them in their job tasks and their organizational role. Given this information, it is easy to see why an organization would benefit substantially from increasing role clarity for a new employee. Not only does role clarity imply greater productivity, but it has also been linked to both job satisfaction and organizational commitment.[[28]](http://en.wikipedia.org/wiki/Onboarding#cite_note-27)

### Self-efficacy

[Self-efficacy](http://en.wikipedia.org/wiki/Self-efficacy) is the degree to which new employees feel capable of successfully completing their assigned job tasks and fulfilling their responsibilities. It makes logical sense that employees who feel as though they can get the job done would fare better than those who feel overwhelmed in their new positions, and unsurprisingly, researchers have found that job satisfaction, organizational commitment, and turnover are all correlated with feelings of self-efficacy.[[3]](http://en.wikipedia.org/wiki/Onboarding#cite_note-KammeyerMueller2003-2)

### Social acceptance

[Social acceptance](http://en.wikipedia.org/wiki/Acceptance#Social_acceptance) gives new employees the support needed to be successful. While role clarity and self-efficacy are important to a newcomer's ability to meet the requirements of a job, the feeling of "fitting in" can do a lot for one's perception of the work environment and has been demonstrated to increase commitment to an organization and decrease turnover.[[3]](http://en.wikipedia.org/wiki/Onboarding#cite_note-KammeyerMueller2003-2) If an employee feels well-received by his or her peers, a personal investment in the organization develops, and leaving becomes less likely.

### Knowledge of organizational culture

Knowledge of organizational culture refers to how well a new employee understands a company's values, goals, roles, norms, and overall organizational environment. For example, some organizations may have very strict, yet unspoken, rules of how interactions with superiors should be conducted or whether overtime hours are the norm and an expectation. Knowledge of one's organizational culture is important for the newcomer looking to adapt to a new company, as it allows for social acceptance and aids in completing work tasks in a way that meets company standards. Overall, knowledge of organizational culture has been linked to increased satisfaction and commitment, as well as decreased turnover.[[29]](http://en.wikipedia.org/wiki/Onboarding#cite_note-28)

## Outcomes

Historically, organizations have overlooked the influence of business practices in shaping enduring work attitudes and thus have continually underestimated their impact on financial success.[[30]](http://en.wikipedia.org/wiki/Onboarding#cite_note-SaariJudge2004-29)Employees' job attitudes are particularly important from an organization's perspective because of their link to [employee engagement](http://en.wikipedia.org/wiki/Employee_engagement) and performance on the job. Employee engagement attitudes, such as satisfaction with one's job and organizational commitment or loyalty, have important implications for an employee's work performance and intentions to stay with or quit an organization. This translates into strong monetary gains for organizations as research has demonstrated that individuals who are highly satisfied with their jobs and who exhibit high organizational commitment are likely to perform better and remain in an organization, whereas individuals who have developed negative attitudes (are highly dissatisfied and unattached to their jobs) are characterized by low performance and high turnover rates.[[30]](http://en.wikipedia.org/wiki/Onboarding#cite_note-SaariJudge2004-29)[[31]](http://en.wikipedia.org/wiki/Onboarding#cite_note-30) Unengaged employees are very costly to organizations in terms of slowed performance and rehiring expenses. Since, attitudinal formations begin from the initial point of contact with an organization, practitioners would be wise to take advantage of positive attitudinal development during socialization periods in order to ensure a strong, productive, and dedicated workforce.

## Limits and criticisms of onboarding theory

Although the outcomes of socialization organization have been positively associated with the process of uncertainty reduction, they may not necessarily be desirable to all organizations. Jones (1986) as well as Allen and Meyer (1990) found that socialization tactics were related to commitment, but they were negatively correlated to role clarity.[[22]](http://en.wikipedia.org/wiki/Onboarding#cite_note-jones1986-21)[[32]](http://en.wikipedia.org/wiki/Onboarding#cite_note-31) Because formal socialization tactics insulate the newcomer from their full responsibilities while “learning the ropes”, there is a potential for role confusion once expected to fully enter the organization. In some cases though, organizations may even desire a certain level of person-organizational misfit in order to achieve outcomes via innovative behaviors.[[6]](http://en.wikipedia.org/wiki/Onboarding#cite_note-bauer2007-5) Depending on the culture of the organization, it may be more desirable to increase ambiguity despite the potentially negative connection with organizational commitment.

Additionally, socialization researchers have had major concern over the length of time that it takes newcomers to adjust. There has been great difficulty determining the role that time plays, but once the length of the adjustment is determined, organizations can make appropriate recommendations regarding what matters most in various stages of the adjustment process.[[6]](http://en.wikipedia.org/wiki/Onboarding#cite_note-bauer2007-5)

Further criticisms include the use of special orientation sessions to educate newcomers about the organization and strengthen their organizational commitment. While these sessions have been found to be often formal and ritualistic, several studies have found them unpleasant or traumatic.[[33]](http://en.wikipedia.org/wiki/Onboarding#cite_note-32) Orientation sessions are a frequently used socialization tactic, however, employees have not found them to be helpful, nor has any research provided any evidence for their benefits.[[34]](http://en.wikipedia.org/wiki/Onboarding#cite_note-33)[[35]](http://en.wikipedia.org/wiki/Onboarding#cite_note-34)[[36]](http://en.wikipedia.org/wiki/Onboarding#cite_note-35)[[37]](http://en.wikipedia.org/wiki/Onboarding#cite_note-36)[[38]](http://en.wikipedia.org/wiki/Onboarding#cite_note-37)

## Executive onboarding

Executive onboarding is the application of general onboarding principles to helping new executives become productive members of an organization. Practically, executive onboarding involves acquiring, accommodating, assimilating and accelerating new executives.[[39]](http://en.wikipedia.org/wiki/Onboarding#cite_note-38) Proponents emphasize the importance of making the most of the "honeymoon" stage of a hire, a period which has been described by various sources as either the first 90 to 100 days or the first full year.[[40]](http://en.wikipedia.org/wiki/Onboarding#cite_note-39)[[41]](http://en.wikipedia.org/wiki/Onboarding#cite_note-40)[[42]](http://en.wikipedia.org/wiki/Onboarding#cite_note-41)

Effective onboarding of new executives can be one of the most important contributions any hiring manager, direct [supervisor](http://en.wikipedia.org/wiki/Supervisor) or [human resources](http://en.wikipedia.org/wiki/Human_resources) professional can make to long-term organizational success, because executive onboarding done right can improve [productivity](http://en.wikipedia.org/wiki/Productivity) and [executive retention](http://en.wikipedia.org/wiki/Employee_retention), and build shared [corporate culture](http://en.wikipedia.org/wiki/Corporate_culture). A study of 20,000 searches revealed that 40 percent of executives hired at the senior level are pushed out, fail, or quit within 18 months.[[43]](http://en.wikipedia.org/wiki/Onboarding#cite_note-42)

Onboarding may be especially valuable for externally recruited [executives](http://en.wikipedia.org/wiki/Senior_management) transitioning into complex roles, because it may be difficult for those individuals to uncover personal, organizational, and role risks in complicated situations when they don't have formal onboarding assistance.[[44]](http://en.wikipedia.org/wiki/Onboarding#cite_note-43) Onboarding is also an essential tool for executives promoted into new roles and/or transferred from one business unit to another.[[45]](http://en.wikipedia.org/wiki/Onboarding#cite_note-44)

It is often valuable to have new executives start some onboarding activities in the "Fuzzy Front End" even before their first day.[[46]](http://en.wikipedia.org/wiki/Onboarding#cite_note-45) This is one of ten steps executives can follow to accelerate their onboarding.[[47]](http://en.wikipedia.org/wiki/Onboarding#cite_note-46)

1. Position yourself for success
2. Choose how to engage the context and culture
3. Embrace and leverage the Fuzzy Front End before day one
4. Take control of day one: Make a powerful first impression
5. Drive action by activating and directing ongoing communication
6. Embed a strong burning imperative
7. Exploit key milestones to drive team performance
8. Over-invest in early wins to build team confidence
9. Secure adept people in the right roles and deal with the inevitable resistance
10. Evolve people, plans, and practices to capitalize on changing circumstances.

## Recommendations for practitioners

Ultimately, practitioners should seek to design an onboarding strategy that takes individual newcomer characteristics into consideration and encourages proactive behaviors, such as information seeking, that help facilitate the development of role clarity, self-efficacy, social acceptance, and knowledge of organizational culture. Research has consistently shown that doing so produces valuable outcomes such as high job satisfaction (the extent to which one enjoys the nature of his or her work), organizational commitment (the connection one feels to an organization), and job performance in employees, as well as lower turnover rates and decreased intent to quit.

In terms of structure, empirical evidence indicates that formal institutionalized socialization is the most effective onboarding method. New employees who complete these kinds of programs tend to experience more positive job attitudes and lower levels of turnover in comparison to those who undergo individualized tactics.[[6]](http://en.wikipedia.org/wiki/Onboarding#cite_note-bauer2007-5)[[48]](http://en.wikipedia.org/wiki/Onboarding#cite_note-47) Finally, it is also important to note that in-person onboarding techniques are more effective than virtual ones. Though it may initially appear to be less expensive for a company to use a standard computer-based orientation program to introduce their new employees to the organization, research has demonstrated that employees learn more about their roles and company culture through face-to-face orientation.[[49]](http://en.wikipedia.org/wiki/Onboarding#cite_note-48)

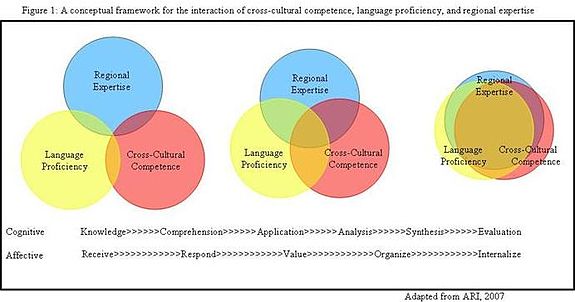
# International business

# Intercultural competence

**Intercultural competence** is the ability to [communicate](http://en.wikipedia.org/wiki/Communication) successfully with people of other [cultures](http://en.wikipedia.org/wiki/Culture).

In [interactions](http://en.wikipedia.org/wiki/Interaction) with people from foreign cultures, a person who is interculturally competent understands culture-specific concepts in [perception](http://en.wikipedia.org/wiki/Perception), thinking, feeling and acting. The interculturally competent person considers earlier experiences free from [prejudices](http://en.wikipedia.org/wiki/Prejudice), and has an interest in, and [motivation](http://en.wikipedia.org/wiki/Motivation) towards, continued [learning](http://en.wikipedia.org/wiki/Learning).

## Cross-cultural competence

[](http://en.wikipedia.org/wiki/File:Intercultural_competence.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Intercultural_competence.jpg)

Cross-cultural competence (3C), another term for inter-cultural competence, has generated its own share of contradictory and confusing definitions, as it has been studied and sought by a wide variety of academic approaches and professional fields. One author identified no fewer than eleven different terms with some equivalence to 3C: cultural savvy, astuteness, appreciation, literacy or fluency, adaptability, terrain, expertise, competency, awareness, intelligence, and understanding.[[1]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Selmeski-0) Organizations from fields as diverse as business, health care, government security and developmental aid agencies, academia, and non-governmental organizations have all sought to leverage 3C in one way or another. Poor results have often been achieved due to a lack of rigorous study of the phenomenon and reliance on "[common sense](http://en.wikipedia.org/wiki/Common_sense)" approaches based on the culture developing the 3C models in the first place.[[1]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Selmeski-0) The U.S. Army Research Institute, which is currently engaged in a study of the phenomenon, defines 3C as: "A set of cognitive, behavioral, and affective/motivational components that enable individuals to adapt effectively in intercultural environments".[[2]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Abbe_et_al.-1) Cross-cultural competence does not operate in a vacuum, however. One theoretical construct posits that 3C, [language proficiency](http://en.wikipedia.org/wiki/Language_proficiency), and regional knowledge are distinct skills that are inextricably linked, but to varying degrees depending on the context in which they are employed. In educational settings, [Bloom](http://en.wikipedia.org/wiki/Benjamin_Bloom)'s affective and cognitive taxonomies[[3]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-2)[[4]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-3) serve as an effective framework to describe the overlap area between the three disciplines: at the receiving and knowledge levels 3C can operate with near independence from language proficiency or regional knowledge, but as one approaches the internalizing and evaluation levels the required overlap area approaches totality.

The development of intercultural competence is mostly based on the individual's experiences while communicating with different cultures. While interacting with people from other cultures, the individual generally faces certain obstacles, which are caused by differences in cultural understanding between the two people in question. Such experiences motivate the individual to work on skills that can help him communicate his point of view to an audience belonging to a completely different cultural ethnicity and background.

One salient issue, especially for people living in countries other than their country of origin, is the question of which culture they should follow. Should they try to fit in and adapt to the culture surrounding them, or should they hold on to their culture and try to avoid interacting with the culture surrounding them? This issue is increasingly common today. Globalization has caused immigration rates to skyrocket for most developed and developing countries. In a new country, immigrants are constantly surrounded by a culture which does not belong to them. International students face a similar dilemma: they have to make a choice about whether they are willing to modify their cultural boundaries in order to adapt to the culture around them, or whether they hold on to their culture and surround themselves by people from their own country. Those who decide to live by the latter rule are the students who experience the most problems in their university life and face constant [culture shocks](http://en.wikipedia.org/wiki/Culture_shocks), while the students who live by the former rule face less problems and interact more with the domestic students. They end up increasing their knowledge about the culture which is followed by the domestic students, and they modify their own culture to inculcate certain aspects from the culture surrounding them in order to help them blend successfully into the society.

## Basics

Cultures can be different not only between [continents](http://en.wikipedia.org/wiki/Continent) or [nations](http://en.wikipedia.org/wiki/Nation), but also within the same [company](http://en.wikipedia.org/wiki/Company) or even [family](http://en.wikipedia.org/wiki/Family). These differences can be [geographical](http://en.wikipedia.org/wiki/Geographical), [ethnic](http://en.wikipedia.org/wiki/Ethnic), [moral](http://en.wikipedia.org/wiki/Moral), [ethical](http://en.wikipedia.org/wiki/Ethical), [religious](http://en.wikipedia.org/wiki/Religion),[political](http://en.wikipedia.org/wiki/Political), and/or [historical](http://en.wikipedia.org/wiki/Historical).

## Typical examples of cultural differences

Perception is different and often selective:[[5]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-4)

* [Behavior](http://en.wikipedia.org/wiki/Behavior) and [gestures](http://en.wikipedia.org/wiki/Gesture) are interpreted differently. For instance:
  + Showing the thumb held upwards in certain parts of the world means "everything's ok", while it is understood in some Islamic countries as a rude sexual sign. Additionally, the thumb is held up to signify "one" in France and certain other European countries, where the index finger is used to signify "one" in other cultures. In India and Indonesia, it is often regarded as wishing "all the best".[[6]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-5)[[7]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-6)
  + In India, showing somebody the palm of your hand is regarded as a gesture of blessing that person, mostly done by elders. Most Hindu and Buddhist deities are depicted showing the palm of their right hand. However, in some eastern European countries, the same gesture is considered rude. The use of the hand as a sign for someone to come also varies between cultures. Bending the index finger with the palm facing up should be avoided in some cultures, and is replaced by a grasping hand motion with a downward or outward facing palm.
  + It is very common for heterosexual men in the Indian subcontinent and most parts of the Arab world to hug each other, sit with arms over the shoulder or walk while holding hands. However, this is regarded as homosexual behavior in the West and some Asian cultures, such as China, Indonesia and Japan.
  + In Indonesia, and many Asian nations, girls and adult females will often hold hands and be quite "touchy-feely" with one another, even slapping one another on the bottom. This is considered locally as harmless sister-like platonic affection, but some outsiders may inaccurately perceive it as widespread lesbianism.
* In the Americas as well as in Arabic countries, the pauses between words are usually not too long, while in India and Japan pauses can give a contradictory sense to the spoken words. Enduring silence is perceived as perfectly comfortable in India, Indonesia and Japan, to the point where being unnecessarily talkative is considered rude and a sign of poor self-control. To some in Europe, North America and Australia, however, long silences may feel as if a [faux pas](http://en.wikipedia.org/wiki/Faux_pas) has been committed, causing insecurity and embarrassment. Scandinavians, by the standards of other Western cultures, are more tolerant of silent breaks during conversations.
* In many cultures all over the world, avoiding eye contact or looking at the ground when talking to one's parents, an elder, or one of higher social status is a sign of respect. In contrast, such body language can be construed as deception, boredom, disinterest or shame (on the part of the doer) in others. For example, an Anglo-European teacher may expect direct eye contact as a sign of paying attention, while an Asian or Navajo student will deliberately avoid it so as not to appear rude or confrontational. Unbroken eye contact is a common sign of aggression or dominance posturing among the animal kingdom (for example, in guard dogs).
* In Persian and Pakistani cultures, if a person offers an item (i.e. a drink), it is customary not to accept it instantly. A sort of roleplay forms with the person offering being refused several times out of politeness before their offering is accepted. This tradition is known as *tarof* (or [*taarof*](http://en.wikipedia.org/wiki/Taarof)) or *takaluf*, which in Persian literally means "offer". A similar exchange happens in many countries, such as India and Indonesia, where especially if visiting poorer people, it shows a form of empathy not to impose deliberately upon the hosts.[[8]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-7) In many other cultures, it would be considered polite for the person offering to ask only once, so as to respect the other person's wish if the offer is declined.
* In African, South American, and Mediterranean cultures, talking and laughing loudly in the streets and public places is widely accepted, whereas in some Asian cultures it is considered rude and may be seen as a mark of self-centeredness or [attention-seeking](http://en.wikipedia.org/wiki/Attention-seeking).
* People from the West may be shocked by the [squat toilet](http://en.wikipedia.org/wiki/Squat_toilet) found in parts of Continental Europe (France, Italy, Turkey, etc.). The squat toilet is also prevalent in Asia (most especially China, Japan, Thailand, Indonesia and the Indian subcontinent, though it is even found in Singapore's spotlessly clean, ultra-modern Changi Airport toilets). However, it is common for Asian public toilets have both type of toilet designs - though these may not be connected directly to main water supplies and may not have toilet tissue. Instead, in these cultures, cleansing after defecating is done with a thorough water (and preferably soap) douche, and the user is expected to flush their resultant mess on the toilet or floor manually via the ladle or bucket provided. As such, many Asians are revolted by Western toilets not providing the post-defecation toilet hose. Even among themselves, many resourceful Asians will bring bottled water into toilets or fill them from the sinks as a makeshift post-defecation rinser.
* Additionally, a wet toilet seat and surrounding floor is considered clean, or newly rinsed, in many parts of Asia, while a dry toilet and bathroom are considered possibly dirty. A Westerner would find a dry toilet cleaner.
* [Arranged marriage](http://en.wikipedia.org/wiki/Arranged_marriage) is very common in the Middle East, India, and Africa, while in some Asian and most Western cultures, the romantic marriage is idealized and the right to choose marital partners is valued. An arranged marriage is perceived correctly (if a [forced marriage](http://en.wikipedia.org/wiki/Forced_marriage)) or incorrectly as an infringement on this right, and therefore is viewed unfavorably.
* In some nations, heterosexual unmarried couples holding hands in public are uncommon or frowned upon, and hugging is considered unacceptable. In many Western and Westernized nations, especially urban centers, this is common and considered harmless.
* It is common to see couples kissing, even quite passionately, in public in Western countries, but such an action may cause consternation, alarm or even legal action in African and a few Asian countries.
* In Christian and most Muslim weddings, the bride wears white to symbolize her virginal purity, while in Hindu and Korean cultures white clothes are a symbol of sorrow and should be worn to mourn the dead.
* In Korea and most other Asian countries, in universities it is considered rude to interrupt the professor during the lecture. In Western countries students are expected and even encouraged to ask questions during a lecture if necessary.
* In Asian cultures, a modest attitude is highly valued, while Western culture values self-expression

## Requirements

Basic needs are sensitivity and [self-consciousness](http://en.wikipedia.org/wiki/Self-consciousness): the understanding of other [behaviors](http://en.wikipedia.org/wiki/Behavior) and ways of thinking as well as the ability to express one's own point of view in a transparent way with the aim to be understood and respected by staying flexible where this is possible, and being clear where this is necessary.

It is a balance, situatively adapted, between four parts:

1. [Knowledge](http://en.wikipedia.org/wiki/Knowledge) (about other cultures, people, nations, behaviors ...)
2. [Empathy](http://en.wikipedia.org/wiki/Empathy) (understanding feelings and needs of other people)
3. [Self-confidence](http://en.wikipedia.org/wiki/Confidence) (knowledge about one's desires, strengths and weaknesses, and emotional stability)
4. [Cultural identity](http://en.wikipedia.org/wiki/Cultural_identity) (knowledge about one's own culture)

## Cultural differences

*See also:*[*Geert Hofstede*](http://en.wikipedia.org/wiki/Geert_Hofstede)

Cultural characteristics can be differentiated between several dimensions and aspects; the ability to perceive them and to cope with them is one of the bases of intercultural competence.

* [Collectivism](http://en.wikipedia.org/wiki/Collectivism) and [individualism](http://en.wikipedia.org/wiki/Individualism)[[9]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Geert_Hofstede_says-8)
* [Masculine](http://en.wikipedia.org/wiki/Masculine) and [feminine](http://en.wikipedia.org/wiki/Feminine) cultures[[9]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Geert_Hofstede_says-8)
* Uncertainty avoidance[[9]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Geert_Hofstede_says-8)
* [Power](http://en.wikipedia.org/wiki/Power_(philosophy)) distance[[9]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Geert_Hofstede_says-8)
* [Chronemics](http://en.wikipedia.org/wiki/Chronemics): Monochrone (time-fixed, "one after the other") and polychrone (many things at the same time, "[multi-tasking](http://en.wikipedia.org/wiki/Multi-tasking)"); Also called long-term orientation[[9]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Geert_Hofstede_says-8)
* Structural characteristics: e.g. basic personality, [value](http://en.wikipedia.org/wiki/Value_(personal_and_cultural)) orientation, experience of [time](http://en.wikipedia.org/wiki/Time) and [space](http://en.wikipedia.org/wiki/Space), selective [perception](http://en.wikipedia.org/wiki/Perception), [nonverbal communication](http://en.wikipedia.org/wiki/Nonverbal_communication), patterns of [behavior](http://en.wikipedia.org/wiki/Behavior)
* [Confucianism](http://en.wikipedia.org/wiki/Confucianism) and [Christianity](http://en.wikipedia.org/wiki/Christianity)

## Assessment

For [assessment](http://en.wikipedia.org/wiki/Psychological_assessment) of intercultural competence as an existing ability and/or the potential to develop it (with conditions and timeframe), the following characteristics are tested and observed: [ambiguity tolerance](http://en.wikipedia.org/wiki/Ambiguity_tolerance), openness to contacts, flexibility in behavior, emotional stability, motivation to perform, [empathy](http://en.wikipedia.org/wiki/Empathy), [metacommunicative competence](http://en.wikipedia.org/wiki/Metacommunicative_competence), [polycentrism](http://en.wikipedia.org/wiki/Polycentrism).

### Assessment instruments

Assessment of cross-cultural competence (3C) is another field rife with controversy. One survey identified eighty-six assessment instruments for 3C.[[10]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-9) The Army Research Institute study narrowed the list down to ten quantitative instruments for further exploration into their reliability and validity.[[2]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Abbe_et_al.-1) Three examples of quantitative instruments include the [Inter-cultural Development Inventory](http://en.wikipedia.org/w/index.php?title=Inter-cultural_Development_Inventory&action=edit&redlink=1), the Cultural Intelligence Scale, and the Multi-cultural Personality Questionnaire.[[2]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-Abbe_et_al.-1) Qualitative assessment instruments such as scenario-based assessments are also useful tools to gain insight into inter-cultural competence. These have proven valuable in poorly defined areas such as 3C.[[11]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-10)[[12]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-11)[[13]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-12)[[14]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-13) Intercultural coaching frameworks, such as the ICCA™ (Intercultural Communication and Collaboration Appraisal), do not attempt an assessment, but provide a guidance for personal improvement based on an identification of personal traits, relative strengths and weaknesses. [[15]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-14)[[16]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-15) Research in the area of 3C assessment, while thin, also underscores the value of qualitative instruments in concert with quantitative ones.[[17]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-16)[[18]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-17)[[19]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-18)

## Criticisms

It is important that cross-cultural competence training and skills not break down into application of stereotypes of a group of individuals. Although the goal is to promote understanding between groups of individuals that, as a whole, think somewhat differently, it may fail to recognize the specific differences between individuals of any given group. These differences can often be larger than the differences between groups, especially with heterogeneous populations and value systems.[[20]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-19) In addition the tendency of 3C training to simplify migration and cross-cultural processes into stages and phases has been criticized by Madison (2006),[[21]](http://en.wikipedia.org/wiki/Intercultural_competence#cite_note-20) whose research emphasizes an existential and more subjective view of such experiences.

# Etiquette in Asia

As expectations regarding good [manners](http://en.wikipedia.org/wiki/Manners) differ from person to person and vary according to each situation, no treatise on the rules of[etiquette](http://en.wikipedia.org/wiki/Etiquette) nor any list of [faux pas](http://en.wikipedia.org/wiki/Faux_pas) can ever be complete. As the [perception](http://en.wikipedia.org/wiki/Perception) of [behaviors](http://en.wikipedia.org/wiki/Behaviors) and [actions](http://en.wikipedia.org/wiki/Social_actions) vary, [intercultural competence](http://en.wikipedia.org/wiki/Intercultural_competence) is essential. However, a lack of [knowledge](http://en.wikipedia.org/wiki/Knowledge) about the [customs](http://en.wikipedia.org/wiki/Norm_(sociology)) and expectations of [Asian people](http://en.wikipedia.org/wiki/Asian_people) can make even the best intentioned person seem [rude](http://en.wikipedia.org/wiki/Rude), [foolish](http://en.wikipedia.org/wiki/Stupidity), or worse.

## Appointments

In many situations, an emphasis is placed on promptness and appropriate attire. Breaking social commitments, such as appointments or even casual plans to meet with friends, can be a serious faux pas. Preventing another person from keeping a commitment, especially with family, is rude as well.

## Elders

Special respect is paid to older people in many circumstances. This can include standing when older people enter a room, always greeting older people before others present (even if they are better known to the speaker), standing when speaking to one’s elders and serving older people first at a meal table. Touching the head, shoulders or back of an older person can be considered disrespectful, even if the intent is to comfort or indicate affection. Older people are rarely referred to by first names; they are addressed with such [honorifics](http://en.wikipedia.org/wiki/Honorific) as Mr. and Mrs. or the appropriate non-[English](http://en.wikipedia.org/wiki/English_language) equivalents. Sometimes terms such as "Uncle" or "Auntie" are appropriate for older non-relatives.

For example, the young people (in China) will call an older person as "Ye Ye" (grandfather), and "NaiNai" (grandmother), "Ah Yi" (aunt), and "ShuShu" (uncle) as a sign of respect even if that person is not family by blood.

In India, elders are given priority over younger people in a range of social settings. For example, it is impolite for a young person to be sitting while an elder is standing, in this case, even if there is a free seat, the young person will offer their seat to the elder in concern. Another example would be if an elder is carrying something of considerable weight, and a young person has their hands free, it is expected of the young person to offer assistance to the elder in concern. As with all other Asian cultures, young people in India address any older unrelated person by the closest plausible relation i.e. a slightly older person of the same generation may be referred to as elder brother, or elder sister in the respective language while an elderly person may be referred to as auntie, uncle, grandpa or grandma as appropriate, again in each respective language. As with many other Asian lingual spheres, Indian languages follow strict honorifics that must be abided by.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

## Humility

Behaviours associated with [humility](http://en.wikipedia.org/wiki/Humility), [status](http://en.wikipedia.org/wiki/Social_status) and [pride](http://en.wikipedia.org/wiki/Pride) are very important in some Asian societies. Etiquette might demand that a great cook or artist deprecate their own achievement in a way that might be viewed negatively as "fishing for compliments" or false modesty in the West. Situations in some Asian societies allow for displays of wealth or ability that would be uncomfortably ostentatious or in bad taste in Western societies.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

## Luck

Certain customs regarding good and bad [luck](http://en.wikipedia.org/wiki/Luck) are important to many [Asian people](http://en.wikipedia.org/wiki/Asian_people). These customs may be regarded as [superstitions](http://en.wikipedia.org/wiki/Superstition) by many, but they are often tied to [religious traditions](http://en.wikipedia.org/wiki/Religion) and are an important part of certain [belief systems](http://en.wikipedia.org/wiki/World_view), even among the well-educated and affluent sectors of society.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

## Shoes

Traditionally, shoes are not worn in households in nations such as [India](http://en.wikipedia.org/wiki/India), [Indonesia](http://en.wikipedia.org/wiki/Indonesia), [Japan](http://en.wikipedia.org/wiki/Japan), [Korea](http://en.wikipedia.org/wiki/Korea), [Philippines](http://en.wikipedia.org/wiki/Philippines), [Thailand](http://en.wikipedia.org/wiki/Thailand), [Malaysia](http://en.wikipedia.org/wiki/Malaysia), and [Vietnam](http://en.wikipedia.org/wiki/Vietnam), nor in certain holy places elsewhere, such as[mosque](http://en.wikipedia.org/wiki/Mosque) and many [Buddhist](http://en.wikipedia.org/wiki/Buddhism) or [Hindu](http://en.wikipedia.org/wiki/Hinduism) temples. The typical expectation is that shoes will be removed in the foyer and left neatly with toes pointing outside. Socks or stockings should be very clean and in good condition. In regions where shoes are not worn in houses, these rules also apply to restaurants, except those with Western-style tables and chairs.

Furthermore, in Japan, when one buys a new pair of shoes, one wears them for the first time in the morning. It is unlucky to wear them for the first time in the evening or afternoo

## Etiquette by Region

Specific details which may contradict the aforementioned generalisations are listed in the list here below.

### Bangladesh

* Women do not shake hands but instead greet others with a polite nod.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* The "[thumbs up](http://en.wikipedia.org/wiki/Thumbs_Up)" gesture is considered obscene.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* When crossing legs, feet or shoes should not be pointed towards anyone. The soles of shoes, sandals or feet are considered unclean.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* When receiving anything the right hand is always used.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Bangladesh is a [Muslim](http://en.wikipedia.org/wiki/Muslim)-majority nation. Some points of [etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) are also applicable here. As Bangladesh has cultural ties to India, some points of etiquette listed here under that heading are applicable at times as well—such as the prohibition against using the left hand for certain activities.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* If giving gifts, avoid frangipanis and white flowers as they are for funerals. Never give money. It is considered bad form to open gifts in front of the giver.[[1]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-bangkwint-0)

### Central Asia

Many countries in this region have traditions based on [Islam](http://en.wikipedia.org/wiki/Islam) and share values with other parts of the [Muslim world](http://en.wikipedia.org/wiki/Muslim_world). Guidelines regarding [etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) are often applicable to Central Asia as well. This holds especially true in [Muslim majority](http://en.wikipedia.org/wiki/Majority_Muslim_countries) countries such as:

|  |  |  |  |
| --- | --- | --- | --- |
| * Afghanistan * Azerbaijan | * Kyrgyzstan * Pakistan | * Tajikistan * Turkmenistan | * Uzbekistan |

### Greater China

*Further information:*[*Customs and etiquette in Chinese dining*](http://en.wikipedia.org/wiki/Customs_and_etiquette_in_Chinese_dining)

* The Chinese are not keen on physical contact, especially when doing business. The only circumstance in which it may take place is when a host is guiding a guest. Even then contact will only be made by holding a cuff or sleeve. It is considered rude to slap, pat, or put one's arm around the shoulders of another.[[2]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-1)
* On the eve of [Chinese New Year](http://en.wikipedia.org/wiki/Chinese_New_Year), it is a faux pas to completely eat a fish at a [reunion dinner](http://en.wikipedia.org/wiki/Chinese_New_Year#Reunion_dinner) as there are specific customs surrounding this.[[3]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-2)
* It is a faux pas to attend a wedding while in mourning as it is believed to bring bad luck to the marrying couple.
* It may be considered shocking for a pregnant woman to attend a funeral due to the belief that this endangers her baby.
* While splitting bills at restaurants as is common among younger people, older adults might consider it a matter of prestige to pay for the bill and will often compete for the honour. Allowing another to pay the bill without some protest may be a faux pas.
* Many standards of Western etiquette, on the other hand, apply in the former [crown colony](http://en.wikipedia.org/wiki/British_overseas_territories) of [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong).
* In mainland China, especially when showing respect, when giving cash to someone, it is given to one with both hands and the head slightly bowed. Cash bills are usually held in both hands, and the receiver picks them up. To drop money from the top down into somebody's hands is seen as giving charity and may be considered rude.

### Greater India

* Guests are generally offered a refreshment depending on the season and the time of visit. Arriving at meal times might result in an invitation to the meal. However, at times this is just a polite offer and sometimes can be a faux pas. While dining, additional food may be offered multiple times. These are generally second and third "rounds" and it is not considered rude to decline them.
* The word "drink" as a noun almost always refers to [alcohol](http://en.wikipedia.org/wiki/Alcoholic_beverage) in [Indian English](http://en.wikipedia.org/wiki/Indian_English).
* It is polite to offer refreshments and this custom has been carried by Indians outside of India as well.
* Indian hospitality requires the host to insist their guests eat well and gently protest that they haven't had enough. It would be rude to decline by stating one is watching one's diet.
* Some Hindu households follow a vegetarian diet and many vegetarian/non-vegetarian households do not consume alcohol.
* Many Indian households expect visitors to leave their footwear at the main door of their house.
* It is considered immature and boorish to open a gift in front of the person who has given it. Gifts are opened in private.
* As India has a long [colonial history](http://en.wikipedia.org/wiki/Colonial_India), many rules of Western (specifically British) etiquette are widely observed.
* Eating, accepting goods or making payments with the left hand can be a faux pas (as it is associated with hygiene and cleanliness - left hand is unclean). In some situations, using both hands together is a sign of respect, such as a handshake, offering a gift or giving something in the temple.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Some points of [etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) apply here, especially in regions where the Muslim presence is strongest.
* Many people in India and surrounding regions avoid shaking hands with individuals of the opposite gender. When meeting a person of the opposite gender, it is prudent to verbally greet them and then wait to see if the other person extends the hand first. Most often, especially with more elderly individuals, Hindus greet with palms together and say [Namaste](http://en.wikipedia.org/wiki/Namaste) or its variants based on what region the individual is from such as Namaskaram and Vanakam down south and 'Nomoshkar' in Bengal.
* For a man to make any comment about a woman’s appearance can be considered inappropriate.
* Asking a person to a social event (e.g. a bar or restaurant) typically implies that the person offering the invitation will be paying for everything.
* In the Hindu community, it is common for young people to seek the blessings of elders by bending and touching their feet. However, this practice is not followed in the Muslim community.
* Among many communities, beliefs regarding holiness and cleanliness forbid the touching of one's feet to a person or an important object such as a book or food which are considered to be divine blessings by most Hindus. Custom also discourages displaying the soles of one's feet. Feet should not be extended toward another person (especially an elder), or towards any religious artifact or symbol. Shoes are typically removed when entering a dwelling or place of worship.
* It is generally expected that men and women dress modestly when visiting the Hindu Temple. This can also be true of other places of worship in India.
* It is impolite and can be considered an insult to refuse the offering of [prasad](http://en.wikipedia.org/wiki/Prasad)."Hindus believe that the prasad has the God's blessing residing within it". Offering of the prasad is by no means an attempt to evangelize nor should it be seen as forcing of someone else's belief onto oneself.
* The [prasad](http://en.wikipedia.org/wiki/Prasad) must be accepted with the right hand or both hands when the prasad includes heavier items such as coconuts.
* It is considered impolite to address a person who is older or holds a higher status by their first name. In [Hindi](http://en.wikipedia.org/wiki/Hindi), the first name is usually followed by "ji" to show respect. Older non-relatives such as family friends or parents of close friends are usually referred to as Uncle and Aunty. It is rude for one to address elders by their names.
* It is considered impolite to kiss a significant other in front of parents or other elders.
* Asking questions about the caste system or worshipping cows is frowned upon and will usually mark one as ignorant or rude.
* Interacting with children is appreciated.
* "What are you doing/What do you do?" as in what does one do for work or as an occupation is a common phrase as a conversation starter after greetings, and is a normal way of trying to initiate conversation with one.
* [Caste](http://en.wikipedia.org/wiki/Caste) is a very ancient and complex aspect of Hindu culture, and talking about the moral aspects of caste is fraught with too many possible faux pas for the unfamiliar. Most Hindus belong to a caste.
* The general principle of dining in South and parts of South-east Asia is to always use ones right hand to consume, even if one is left-handed.

Also: [Etiquette of Indian dining](http://en.wikipedia.org/wiki/Etiquette_of_Indian_dining)

### Indonesia

It is important to understand that Indonesia is a vast tropical country of sprawling [archipelago](http://en.wikipedia.org/wiki/Indonesian_archipelago) with extremely diverse [culture](http://en.wikipedia.org/wiki/Culture_of_Indonesia). Each of these[Indonesian ethnic groups](http://en.wikipedia.org/wiki/Ethnic_groups_in_Indonesia) have their own culture, tradition and may speak their own language. Each of them may adhere different religions that have their own rules. These combinations made Indonesia a complex mixture of traditions that may differ from one place to another. Indonesia have a Muslim majority population, and some points of [etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) apply. Following are some key points of Indonesian etiquette:[[4]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Kwintessential-3)

* It is impolite to express resentment, arrogance or hostility when speaking to people outside your immediate family or closest friends.
* Smiling is considered polite. Avoid staring too much, as it can be considered intrusive.
* Interacting with somebody you have barely met, especially older people, requires strict etiquette. However interacting with close friends, among peers with similar age, or significant others, might be more relaxed, affectionate and less subject to strict etiquette.
* Public displays of affection with sposes or partners are regarded as sexual and thus are frowned upon. However public displays of affection towards one's children, parents or family members are approved of.
* Hierarchical relationships are respected, emphasised and maintained.
* Respect is usually shown to those with status, power, position, and age
* People older than you must be respected. Parents, grand parents and teachers are must be obeyed.
* When shaking the hand of elders (such as parents, grandparents or teachers) the younger person is expected to touch the top of the elder's palm with the tip of their nose or forehead to express respect. It is similar to kissing a hand, but only using the tip of the nose or forehead, not lips.
* Most Indonesians value harmony, so direct confrontation is best avoided.
* Ii is important to be considerate of other people's dignity. Shaming or humiliating people in public is considered extremely rude.[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Travel_Etiquette-4)
* Saying *terimakasih* (thank you) after receiving services or favours is polite
* Greet Muslims with the Islamic greeting *assalamu 'alaikum*, and reply with *walaikumsalam*.
* When greeting or introducing oneself it is polite to smile, shake hands and nod slightly. Gently touch your counterpart’s extended hands, before finally bringing your hands back to your chest to demonstrate that you welcome them from your heart.[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Travel_Etiquette-4) The greeted party should then reciprocate this gesture.
* If it is not practical to shake hands, you can greet people them by putting your hands together in front of your chest while slightly bowing. It is similar to [AñjaliMudrā](http://en.wikipedia.org/wiki/A%C3%B1jali_Mudr%C4%81).
* Some conservative Indonesian muslims might avoid direct touch with the opposite sex including handshake, so performing non-touching salam (anjali) is recommended when greeting opposite sex that are conservative muslims.
* Always use your right hand, when shaking hands, offering a gift, handing or receiving something, eating, pointing or generally touching another person.[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Travel_Etiquette-4)
* Do not touch the head of an adult, as it is commonly believed that the soul inhabits the head, and the head is therefore sacred.
* Avoid tilting your head back, putting your hands on your hips or pointing when talking to other people.
* Pointing toward someone with an index finger is considered rude, pointing with a thumb is considered more polite.
* Speaking softly but clearly is recommended, as speaking too loudly is considered rude.
* Conservative and modest dress sense should be worn — especially by women.[[4]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Kwintessential-3)
* When visiting a place of worship, the proper dress etiquette for such places is of utmost importance.
* When entering a mosque, always remove your shoes.
* Bathing suits and [swimwear](http://en.wikipedia.org/wiki/Swimwear) should only be worn in and around beaches and swimming pools.
* When not swimming, women should cover their legs, for example with a [sarong](http://en.wikipedia.org/wiki/Sarong).
* To announce your presence, ring a bell or knock at the door while saying *assalamu 'alaikum* if the host is Muslim, or more commonly *permisi*.
* Wait to be allowed to enter the house, and wait to be shown to a seat in a guest room.
* Wait to be allowed to drink, finishing the whole cup indicates that you wish for more.
* Do not overstay your welcome. The host will not indicate when the visit has been long enough, since it is considered extremely rude. It is up to the guest to estimate the length of their visit and initiate the farewell.
* Food is often taken from a shared dish in the middle. In a seated dinner party, you will first be served and it would not be considered rude if you helped yourself after that. Wait to be invited to eat before you start.
* It is better to sit down while eating, yet in some circumstances eating while standing is acceptable.
* Depending on the situation some people may use their hands. Many Indonesians traditionally eat with their hands. Higher status people may also as well, to indicate solidarity. It is customary to follow host's lead. In restaurants however, if one does not wish to eat with bare hands, it is acceptable to ask for [spoon](http://en.wikipedia.org/wiki/Spoon) and [fork](http://en.wikipedia.org/wiki/Fork) instead.
* Eat or pass food with your right hand only.
* Making sounds while eating is considered impolite. This includes slurping or the sound of cutlery touching the dish.
* Playing with food it is considered impolite and childish.
* Offer gifts with the right hand only, or with both hands.
* Gifts should not be opened when received.
* Don't point with your index finger- use an upward facing palm, to gesture the direction.
* It is impolite to indicate a direction with your head. This is considered aggressive and implies the object or person in question has a very low status.
* Avoid using first names. If in doubt use Mas, Pak, Ibu or Mbak.
* It is considered very impolite to snap your fingers to get a waiters' attention. Wave and raise your hand instead.
* A Javanese custom is not to drink until all food is consumed, signifying self-control and the ability to endure a task to the end.
* Tipping is customary in Indonesia, yet it is optional. Consult the locals as to the usual rate. Tips apply to anyone who offer a service: toilet attendants, drivers, grocery-store clerks, parking guard. Be generous, but do not exceed too far the usual local accepted rate. A tip of 10% of total bill at small eateries, where the bill does not specify a service charge is adequate. Most all restaurants will include a 10% service charge in the bill, if so you may not give any tip. Hotels and fine restaurants will usually include a service charge, and it is the discretion of the buyer to tip. Tipping at street hawker food stalls is not usual. The general rule among the Javanese is that the truly wealthy are inconspicuous; the wealthier one is or wishes to appear, the more generously one gives discreetly.

### Brunei and Malaysia

* Brunei and Malaysia have a Muslim majority and some points of [etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) apply. These countries also have a significant Chinese population to whom the points mentioned in regard to etiquette in China may apply.
* In three nations mentioned above, one should not enter a [mosque](http://en.wikipedia.org/wiki/Mosque) or [Hindu](http://en.wikipedia.org/wiki/Hinduism) temple without removing one’s shoes. Other places of worship such as [Taoist](http://en.wikipedia.org/wiki/Taoism) or [Chinese Buddhist](http://en.wikipedia.org/wiki/Buddhism_in_China) temples and [Christian churches](http://en.wikipedia.org/wiki/Church_(building)) allow footwear while others forbid it.
* Nudity (and toplessness with regard to women) is absolutely prohibited on beaches. Besides offending others, violators risk arrest.
* Placing or slapping an open palm on the top of a sideways-held fist of the other hand is a rude gesture. Inserting the thumb between the index and middle fingers of a closed fist is another.
* Regarding the head and feet, the taboos listed below in regard to Thailand are widely observed in these countries as well.
* Pointing with one’s index finger is considered impolite, especially when pointing at people. Instead, a closed fist held sideways (thumb at the top) with the thumb pointing the direction is used.
* Many Malaysians traditionally eat with their hands. Higher status people may also as well, to indicate solidarity. It is customary to follow their lead, using only the right hand to eat. In restaurants however, if one does not wish to eat with bare hands, it is acceptable to ask for [spoon](http://en.wikipedia.org/wiki/Spoon) and [fork](http://en.wikipedia.org/wiki/Fork) instead.
* Addressing strangers in formal situations by their names (even if they have name tags) is rude. Instead, "Mister" and "Ms." are acceptable.
* It is considered rude to expose your tooth picking to others. Instead, cover your mouth or go to the bathroom.
* Leaving your mouth open when yawning is discourteous. You must practice the habit of covering your mouth whenever you yawn.
* When beckoning someone with a hand gesture, the hand is held flat with palm down, and fingers flexed toward the ground. Like the Japanese, to crook one or more fingers in the air is an obscene gesture.
* Don't point with your feet- this is highly offensive- the sole of the foot is considered the dirtiest part of the body.
* Women must wear brassiere at all times, otherwise it implies she is very low class or a prostitute.
* Don't express anger in public. It is the height of self-control to remain calm at all times.
* Don't point with your index finger- use an upward facing palm, to gesture the direction.
* It's also impolite to indicate direction with the head - this is considered aggressive and implies the object or person in question has a very low status.
* Avoid using the left hand for handling goods, exchanging money, eating. For Muslims, and many Asians, the left is the toilet wiping hand— and is thus considered unclean.
* Traditionally, children should not eat until the older guests have eaten.
* Avoid using first names. If in doubt use Encik or Puan (in Malaysia).
* Never snap to get a waiters' attention. This is near the height of boorishness. Wave instead.
* It is very polite to play the game of initially refusing a gift, then receiving it with extreme gratitude, and indulging the gifter on the thought the giver put in it and how unworthy you, the receiver, are of such gifts. Furthermore emphasizing how you may have inconvenienced the giver is appropriate- in a very similar style to other Asian cultures.
* It is generally acceptable to open gifts immediately as they are received. However, it is considered slightly more polite to unwrap them when the giver has left.

Among higher status groups, western table manners are observed meaning:

* no eating until all guests are served
* no eating sounds such as slurping, gobbling or belching.
* no playing with food
* no slouching
* no elbows on table
* no cutlery to crockery sounds
* no spitting bones out. Discretely pass them into napkin.
* no hawking, coughing, clearing throats or blowing noses at the table
* no incorrect cutlery use or improper handling
* no cutting or manipulating food between chews. Cutlery is placed at rest on plate between chews
* no continuous shoveling of food into mouth
* no chewing with mouth open
* no speaking with food in mouth
* no bending down to meet the cutlery- cutlery brings food to the mouth not vice-versa
* soup bowls tilted away when finishing the last broth
* soup is spooned into the soup-spoon away from the diner
* some will apply a rule of all diners remain seated until all have finished
* some will apply a rule of silence at the dinner table

Tipping is customary in Brunei and Malaysia. Consult the locals as to the usual rate. Tips apply to anyone who offer a service: toilet attendants, drivers, grocery-store clerks. Be generous, but do not exceed too far the usual local accepted rate. A tip of 5-15% of total bill at small eateries, where the bill does not specify a service charge is adequate. Most all restaurants will include a 10% service charge in the bill. Hotels and fine restaurants will usually include a service charge, and it is the discretion of the buyer to tip. Tipping at Mammak (Indian Muslim coffee shops) shops or hawker(food stalls) is not done.

### Japan

*For more details on this topic, see*[*Etiquette in Japan*](http://en.wikipedia.org/wiki/Etiquette_in_Japan)*.*

Japanese customs and etiquette can be especially complex and demanding. The knowledge that non-Japanese who commit faux pas act from inexperience can fail to offset the negative emotional response some [Japanese people](http://en.wikipedia.org/wiki/Japanese_people) feel when their expectations in matters of etiquette are not met.

* Business cards should be given and accepted with both hands. It is expected that the cards will immediately be inspected and admired, then placed on the table in front of the receiver for the duration of the meeting. After the meeting, cards should be stored respectfully and should never be placed in a back pocket. You should not write on a business card. If you want to be taken seriously at a business meeting, you must have business cards. When you get them out, they should be in a card holder - not just taken out of your pocket.[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-5)
* It is a faux pas to accept a gift when it is first offered and the giver is expected to offer it multiple times (usually 3 times). Gifts are generally not opened in the giver's presence.[[7]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-new006.html-6)
* In greeting or thanking another person, it may be insulting if the person of lower status does not [bow](http://en.wikipedia.org/wiki/Bowing_(social)) appropriately lower than the other person. However, foreigners are rarely expected to bow. The level and duration of the bow depends on status, age and other factors.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* Pouring soy sauce onto rice is considered unusual.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* It is less common to pour one's own drink in a social setting. Generally an individual will offer to pour a companion's drink and the companion, in return, will pour the individual's drink. Although if one of you is drinking from a bottle to glass and the other one is drinking just from a glass, it is fine to pour yourself because otherwise you will be in for a long wait.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* Blowing one's nose in public is a faux pas. Also, the Japanese do not use their handkerchief for *hanakuso*, which literally translates as "nose shit".[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* For women, not wearing [cosmetics](http://en.wikipedia.org/wiki/Cosmetics) or a brassiere may be seen as unprofessional or expressive of disregard for the situation.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* Though many Japanese are lenient with foreigners in this regard, it is a faux pas not to use polite language and honorifics when speaking in Japanese with someone having a higher social status. The Japanese honorific "san" can be used when speaking English but is never used when referring to one’s self. Japanese place surnames before given names but often reverse the order for the benefit of Westerners.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* Although people around the world strive not to lose their tempers, expressing outward anger, annoyance or losing one's temper is an especially embarrassing [loss of face](http://en.wikipedia.org/wiki/Face_(social_concept)) in Japan.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* A smile or laughter from a Japanese person may mean that they are feeling nervous or uncomfortable, and not necessarily happy.
* "Hai" means "yes" in Japanese, but in a meeting or discussion it is often used to mean "Yes, I have heard you". Don't mistake this for agreement with your point of view.
* It is very bad manners to be late in Japan. If you have an appointment then aim to be early.
* It is rude to not send a [postcard](http://en.wikipedia.org/wiki/Postcard) for [Japanese New Year](http://en.wikipedia.org/wiki/Japanese_New_Year) to someone who sent you one. Sending such a postcard to someone who suffered a death in the family during the past year is a faux pas.
* [Tipping](http://en.wikipedia.org/wiki/Tipping) is considered rude and is rarely done in Japan except in certain cases, such as tipping your surgeon for an operation, when visiting a high class [ryokan](http://en.wikipedia.org/wiki/Ryokan_(Japanese_inn)), or when dealing with house movers. Consult the locals to be sure what is appropriate. If you can’t be bothered to wait for change, it is okay to tell a taxi driver to keep it.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* Cash is a standard gift for weddings and for children at New Year. It is always given in a special envelope or packet (which you can buy at any convenience store). There will be a standard amount to give at a wedding - ask someone else how much to give.
* When beckoning someone with a hand gesture, the hand is held flat with palm down, and fingers flexed toward the ground. To crook one or more fingers in the air is an obscene gesture.
* It is a faux pas to point directly at someone. Instead, extend fingers outward with your palm up (as if carrying a tray) and gesture toward the person.
* If using a toothpick, one should cover the mouth with the other hand. This comes from a Buddhist belief that showing any bone, including teeth, is dirty.

### Korea

* The number 4 is considered unlucky, so gifts should not be given in multiples of 4. Giving 7 of an item is considered lucky.[[9]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-koreakwint-8)
* Blowing one's nose at the table, even if the food is spicy, is mildly offensive. If necessary, take a trip to the toilet or at least be very discreet.[[10]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-airman.2F0406-9)
* In restaurants and bars, pouring one's own drink is a faux pas. Keep an eye on your neighbors' glasses and fill them if they are empty; they will do the same. To avoid over drinking, simply leave the glass near full. When pouring drinks, hold bottle in right hand, lightly place left hand on forearm near elbow.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-Fodor-7)
* When someone of a significantly higher social position pours you a drink, it is considered proper to turn away from that person when you drink it.
* Leaving a gratuity is usually not accepted nor expected.
* When handing an item to someone, it is considered rude to only use a single hand. Under most circumstances, especially when interacting with a stranger or a superior, one uses the right hand supported by the left hand.
* Even though mentality evolved, women smoking in public is sometimes not accepted, despite being legally allowed.
* A couple kissing each other in public is a faux pas, since it is not seen as modest.
* [[1]](http://sanchonhunjang.blogspot.com/2005/11/sanchon-hunjangs-guide-to-korean.html) A guide to Korean funeral etiquette
* See also [Traditional Korean table etiquette](http://en.wikipedia.org/wiki/Korean_cuisine#Dining_etiquette).

### Pakistan

Also: [Etiquette in Pakistan](http://en.wikipedia.org/wiki/Etiquette_in_Pakistan)

### Philippines

The centuries of Spanish and [American](http://en.wikipedia.org/wiki/American_Colonial_Period_(Philippines)) rule, as well as the influence of [Japan](http://en.wikipedia.org/wiki/Japan), [China](http://en.wikipedia.org/wiki/China), [India](http://en.wikipedia.org/wiki/India), [Middle East](http://en.wikipedia.org/wiki/Middle_East) and the [West](http://en.wikipedia.org/wiki/Occident), have given the [Philippines](http://en.wikipedia.org/wiki/Philippines)has a unique and particularly formal sense of etiquette concerning social functions, [filial piety](http://en.wikipedia.org/wiki/Filial_piety) and public behaviour. Age is an important determinant in social structure and behaviour, dictating the application of honour, precedence, and title.

*See also:* [Table manners#Philippines](http://en.wikipedia.org/wiki/Table_manners#Philippines)

* Unlike in Western culture, where meals are a private affair, Filipinos who are chanced upon dining will invite visitors to eat with them. However, to actually sit down and eat upon the invitation is considered offensive. It is the host's prerogative to be gracious, but it is the guest's burden to avoid being overbearing. When asked to do so, it is polite to say one has already eaten or is still quite full rather than declining bluntly.
* Hosts will strive to appear gracious while guests strive to appear happily grateful in all situations. Any shortcomings by any party in this regard are seen as bad manners.
* Hosts will invariably serve a snack for their visitors, who should in turn always accept and consume the food. Declining is considered rude to the host who has taken to offer his own food to the guest. Only in certain circumstances is it socially acceptable to decline, i.e., if the guest is allergic or if it is against religious beliefs.
* Good posture is expected at the dinner table. A diner singing at table is considered rude in some areas.
* Waiters usually only come to take the order, refill drinks and bring the bill. Most will not return to ask if anything else is needed but are mostly attentive and can be easily summoned. However, except for formal dining establishments, Filipino waiters are not trained to answer questions.
* If someone is buying a meal for someone else, the buyer orders first. For the guest to order something expensive on the menu is considered highly rude and speaks of ill breeding.
* Filipinos use forks, spoons and knives differently than in Western countries, particularly because rice is the country's main [staple](http://en.wikipedia.org/wiki/Staple_food). The spoon is held in the right hand, and is used to scoop up the food or cut up pieces. The fork in the left hand helps in cutting up and spearing the food. Knives are also sometimes used and always in the Western manner (spoons are left out when eating Continental or American cuisine). Chopsticks are not normally used outside of Chinese, Japanese and Korean restaurants or in the home when eating such food; rules on their use still apply.
* The last morsel of food is almost always left on the serving platter. If someone wants to eat it, he or she should ask if anybody else wants it; eating it is considered porcine and ill-bred behaviour.
* While splitting bills at restaurants is common amongst the youth, older adults consider it a matter of prestige to pay for the bill and will often compete for the honour. Moreover, allowing another to pay the bill without some customary protest is a *faux pas*.
* Filipinos still hold [gentlemanly](http://en.wikipedia.org/wiki/Gentlemanly) behaviour in high regard. In waiting rooms or on buses, men traditionally offer their seats to the handicapped, the elderly, the pregnant and women in general, although this is generally ignored today. To revive this, a Manila railway has designated separate seats for these groups, and a separate coach for women after several [indecent](http://en.wikipedia.org/wiki/Sexual_harassment) incidents.
* Filipinos place importance on proper introductions. Older people are introduced to younger people first; men are introduced to women first. Introduce a group to an individual first as the individual is not expected to remember all the names at first introduction. Failing to make the proper introductions can also be a *faux pas*. This is particularly true for children introducing friends or acquaintances to their parents.
* Always acknowledge the presence of older people in the room by shaking their hands. When greeting a parent, [godparent](http://en.wikipedia.org/wiki/Godparent), grandparent or religious authority, Filipinos give obeisance with the important [*máno*](http://en.wikipedia.org/wiki/Mano_(gesture)) gesture; the doer asks for the receiver's hand and brings it to the forehead. Kisses are not involved in such a case nor is there any regard for the cleanliness of the hands. It is unusual and awkward for someone to *máno* non-relatives or new acquaintances unless there is a relatively deep kinship involved. Youth in Americanised and urban areas have however begun switching to the more age-egalitarian kissing of cheeks as a form of greeting.
* Seeming reluctant to socialise, especially at an event to which one is invited, could be considered offensive. It is proper to hide one's self from attention than to directly ask for privacy or personal space.
* Never address older people at the same level; use the words "*tito*" ("uncle") or "*tita*" ("auntie") for extra-familial adults but only if they are close or merit some other honourific yet prefer to be addressed as such (usually to avoid sounding old). [Mister](http://en.wikipedia.org/wiki/Mister), [Mrs.](http://en.wikipedia.org/wiki/Mrs.), and [Miss](http://en.wikipedia.org/wiki/Miss) will suffice in more formal situations, especially if it is only the first introduction.
* When speaking to elders, respectful tone and language is absolutely required. Using "*opo*" (respectful form of "*oo*", the [Filipino](http://en.wikipedia.org/wiki/Filipino_language) word for "yes") and its shortcut "*pò*" wheresoever required. "*Pò*", unlike "*opo*", may be inserted in more places in a sentence (usually Filipino, but sometimes in [Englog](http://en.wikipedia.org/wiki/Englog) or [Taglish](http://en.wikipedia.org/wiki/Taglish)) instead of simply functioning as a reply in the affirmative. Example: *"Kakainna****po****tayo."* (We are going to eat now.) Not doing so is also extremely offensive and could be taken as a sign of aggression. The use of these respectful words is sometimes considered to be a fundamental tenet in local etiquette, especially when taught to children, and is also admirable in a child who employs this in conversation with adults. This rule may however not always apply to non-Tagalog speaking regions.
* Gift-giving is important on many occasions such as weddings and birthdays. Coming to a party empty-handed is considered a [*faux pas*](http://en.wikipedia.org/wiki/Faux_pas). If a gift is unavailable on short notice, a food item may be brought instead. If invited to a restaurant, do not assume the opportunity to buy the celebrant dinner; bring a gift instead.
* When attending a [wake](http://en.wikipedia.org/wiki/Wake), avoid wearing loud colours (especially red). Sombrecolours such as black, white, greys, muted and earth tones are proper for visiting wakes. Due to the Philippine heat and [*Tsinoy*](http://en.wikipedia.org/wiki/Filipino-Chinese) cultural influence, white as a mourning colour is increasingly preferred by many (although [Ilocanos](http://en.wikipedia.org/wiki/Ilocano_people) have used it for centuries). Wearing black or white is however slowly waning, and it usually limited to the immediate family. Money, flowers or Mass intention cards are acceptable gifts.
* If someone needs to walk in between a television and those watching it or between two conversing people, he or she must excuse themselves and lower the head (almost bowing) whilst passing through.
* When one meets an acquaintance at any form of public transport, he/she must never forget to greet the other. In some instances, one takes the responsibility to pay his companion's fare. Allowing this to happen without protest is considered rude.
* When one drives or rides one's own vehicle and sees an acquaintance on the street, it is prerogative to stop and offer a ride, especially if the acquaintance's destination is on the way. The one offered is free to decline or accept; either choice is acceptable.
* Boisterous or loud talking is generally frowned upon; this rule is almost never followed, except by the educated or when someone is in pain or distress.
* Kissing and displaying affection in public is still generally considered to be in bad taste or scandalous in this somewhat conservative country. It is however as rude to make a scene of it, so one merely ignores—or at best stares down—couples who make public displays of affection. This is becoming increasingly acceptable in urban areas, though this is a minority.
* When gesturing for someone to come hither, he or she must face the palm to the ground and gesture the fingers back. The Western gesture, where the palm is faced upwards, is considered a gesture for sex.
* While the Philippines is predominantly [Roman Catholic](http://en.wikipedia.org/wiki/Roman_Catholicism_in_the_Philippines), there is a significant [Muslim minority](http://en.wikipedia.org/wiki/Islam_in_the_Philippines) and therefore many points of [Etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) can apply in Muslim areas.

### Singapore

* In Singapore, a former [crown colony](http://en.wikipedia.org/wiki/British_overseas_territories) of the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), many standards of etiquette in Western societies apply.[[11]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-10)
* Singapore has a very [heterogeneous](http://en.wikipedia.org/wiki/Heterogeneous) population with [Chinese](http://en.wikipedia.org/wiki/Chinese_in_Singapore), [Indians](http://en.wikipedia.org/wiki/Indian_Singaporean) and [Malays](http://en.wikipedia.org/wiki/Malays_in_Singapore) as the largest ethnic groups. As such, many points of etiquette noted above in regard to China, India, Indonesia and Malaysia can apply.

### Thailand

* Thai greeting consists of a slight bow, with the palms pressed together in a prayer-like fashion. The higher the hands are held in relation to the face and the lower the bow, the more respect or reverence the giver of the wai is showing. A person who has given such a beautiful greeting to someone receives more respectful treatment in response.
* Touching someone (even a child) with the foot is a taboo as [Thai Buddhism](http://en.wikipedia.org/wiki/Theravada) considers this an impure region of the body. Pointing with the foot or showing the soles of the feet is strongly discouraged. It is especially important to not to sit with the soles of one’s feet at images of the [Buddha](http://en.wikipedia.org/wiki/Gautama_Buddha).
* Thais regard the head as the highest part of the body, literally and figuratively. Touching someone’s head, even accidentally, requires an immediate apology.
* Thais hold their king in very high regard and any sign of disrespect is a major faux pas. Currency, postage stamps, magazines covers and any other items with the king’s image are never tossed to the ground or treated harshly. Even licking the back of a postage stamp is considered disrespectful. Most especially, these items are never trod upon as it is a sign of utmost disrespect to place one’s foot above the head of the king. Money or other items dropped accidentally should immediately be picked up and reverently brushed.[[12]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-2006_08.html-11)
* Kissing in the streets and any public display of affection are considered rude. While many Thais are relatively liberal-minded in matters of sexuality they maintain a strong sense of public decorum.
* When entering a house, stepping on the threshold is a faux pas that conflicts with Thai beliefs about good and bad luck.
* Some parts of Southern Thailand have a large Muslim population making applicable certain points of [etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East). Western etiquette applies among the expatriate communities of [Bangkok](http://en.wikipedia.org/wiki/Bangkok) and [Pattaya](http://en.wikipedia.org/wiki/Pattaya).

### Turkey

* A small part of Turkey (3%) is in [Europe](http://en.wikipedia.org/wiki/Europe) and many points of European etiquette apply. As Turkey has a Muslim majority, points of [Etiquette in the Middle East](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East) may apply as well.
* Shoes are often taken off in the foyer (not outside the house unless they are especially dirty). Slippers may be offered. It is a faux pas to refuse slippers unless one’s socks are extremely clean and in good condition.
* As beliefs regarding bad luck from open umbrellas indoors are taken seriously by some people, close umbrellas before bringing them inside. Some people believe that passing a knife directly to a person is bad luck as well. These beliefs are especially common among the elderly.
* Hosts typically insist that guests keep eating. One needn’t eat much, but should at least taste a bit of everything on the table and express appreciation for the taste and quality.
* Food or any small favor in general will generally be offered more than once and it is polite to decline it the first time with an expression implying effort to avoid causing inconvenience.
* Avoid hand gestures with which one is unfamiliar, such as making a fist with the thumb placed between the middle and index fingers. Many of these are offensive.
* Any comment to a person about the appearance of the latter's female relatives or wife might be seen as rude.
* If invited to dinner, one is expected to bring something (usually dessert). Avoid bringing alcohol unless sure that the host partakes. If the guest brings food or drinks (as usual) it is customary to offer it in the proper context during the visit.
* Friends might greet each other by shaking hands and touching or kissing one or both of the cheeks. This is inappropriate for business.
* Blowing one's nose at a table is met with disgust and frowned upon even if one has cold. As sniffing is also considered rude at a table, it is best to clear one's nose at a toilet as often as necessary. These activities are in general regarded distasteful, and are best kept away from social interactions.
* When sitting legs crossed, it is offensive to point one's hanging foot at someone, especially someone older or of higher status. Similarly, it is in general rude to show the bottom of one's shoes or feet.
* The entire country practices one minute of silence on 10th November at 9:05am. It is very interesting to see the most crowded places becoming quiet at once. This silence is observed in the memory of the founder of Turkey, Mustafa Kemal.[[13]](http://en.wikipedia.org/wiki/Etiquette_in_Asia#cite_note-most-common-cultural-habits-in-turkey-12)

### Vietnam

* When going out to eat with other people, it is prestigious to pay for the meal. It is therefore rude to prevent someone from paying if they have made the offer first. The offer can be made as soon as going to a restaurant is discussed or anytime thereafter. On the other hand, inviting others for a meal, drink or event automatically creates the expectation that the one giving the invitation will pay for the others. Among younger people, the practice of splitting the bill is increasingly common.
* It is customary to pour alcoholic drinks for others before pouring for one's self. Typically no one imbibes until everyone clinks their glasses together, at which time everyone drinks. This happens throughout the entire drinking session and not just at the beginning.
* Whether the meal table is Western-style with chairs or Vietnamese-style and close to the floor, it is rude to begin eating before inviting others to eat (particularly elders, guests, etc.). Children should always invite adults to begin eating first.
* When children invite adults to begin eating, it should begin with people with a higher prestige in the family. (It goes in order of oldest to youngest, with the male being higher than the female.) For example, the grandfather will be asked, then grandmother, then father, then mother, and then older brothers, followed by older sisters. Younger siblings can be invited, but it is not needed.
* Some [Vietnamese meals](http://en.wikipedia.org/wiki/Cuisine_of_Vietnam) involve scooping food into [lettuce](http://en.wikipedia.org/wiki/Lettuce) or [mustard plant](http://en.wikipedia.org/wiki/Mustard_plant) leaves and similar fresh vegetables at the table rather than employing [utensils](http://en.wikipedia.org/wiki/Cutlery). Fellow diners will typically enjoy helping newcomers master the technique.
* The [Vietnamese language](http://en.wikipedia.org/wiki/Vietnamese_language) is very rich in pronouns. Make sure you are addressing others correctly, according to their age, rank, gender etc.
* Do not show the soles of your feet to other. This is perceived as rude, because the feet are considered dirtiest part of the body.
* Do not touch the heads of others, especially the elderly, for this is where our spirit lies.
* Lower your head when receiving a gift or change, especially when it is being received from the elderly.
* Stand when someone of higher rank enters the room. This shows respect.
* Talking is usually avoided while eating. Small talk will usually take place over tea.

# Etiquette in Australia and New Zealand

Expectations regarding good manners differ from person to person and vary according to each situation. As the perception of behaviors and actions vary, [intercultural competence](http://en.wikipedia.org/wiki/Intercultural_competence) is essential. However, a lack of knowledge about the [customs and expectations](http://en.wikipedia.org/wiki/Norm_(sociology)) of people in [Australia](http://en.wikipedia.org/wiki/Australia) and [New Zealand](http://en.wikipedia.org/wiki/New_Zealand) can make even the best intentioned person seem ignorant, inconsiderate or even rude.

## Shared expectations

Australia and New Zealand are separate countries, each with its own distinct national identity that includes particular customs and rules of etiquette. Confusing their identities in general conversation is usually not tolerated and will be quickly corrected. Points of etiquette that apply to both countries include the following:

### General

* Australians have a notable reliance on rote niceties, the classic "P's & Q's: especially the word "please," but also the phrases "thank you," and "excuse me." While apologizing or expressing appreciation has somewhat displaced the ubiquity of the rote expressions elsewhere in the Anglosphere -- in the US and England, especially -- Australians will sometimes visibly scowl if a stranger makes a casual request or initiates transaction without specifically saying "please" or "thank you." Likewise, even those suffering some obvious distress are expected to speak the words "excuse me" when asking to move past.

The expectation is not displaced by friendliness or apologies. For example: "I'm terribly sorry to bother you -- but may I have another napkin?" might illicit an eyeroll that could easily be avoided by simply saying: "may I have another napkin, please?" This may hold true even, perhaps counter-intuitively, if the latter is delivered somewhat more curtly or coolly.

When meeting friends or new people and when leaving the company of friends or people who one has just met it is becoming less common to require the handshake to be firm, though many are still offended by a 'limp' handshake. Giving someone a limp handshake is referred to as giving someone a "dead fish" and is often viewed with derision, especially in country areas. A quick clasping of hands may be OK for younger people. However, it is always respectful to make eye contact when you shake hands.

### Language

* Requesting a [fanny pack](http://en.wikipedia.org/wiki/Fanny_pack) can be considered obscene due to the use of "fanny" as a [slang](http://en.wikipedia.org/wiki/Slang) term for [female genitalia](http://en.wikipedia.org/wiki/Female_genitalia). "Bum bag" is the acceptable local variation in some areas.[[1]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-fauxpas2-0) Australians and New Zealanders are generally tolerant of foreigners making this mistake.
* Enquiring about which sporting team "you root for" will be met with amusement. "Root" is a vulgar term in both Australia & New Zealand for sexual intercourse. Use "go for" or "support" instead. "Barrack for" is also used by some Australians.
* An enquiry about a person's well being (such as "How's it going?" or "How are you going?") is a common greeting. Generally the accepted response is "Not too bad", and it is considered polite to ask the person the same question back. It is also considered polite to greet *anyone*, including strangers, in this way.
* Bragging, or initiating discussion of one's own achievements, is usually considered in poor taste. (See [tall poppy syndrome](http://en.wikipedia.org/wiki/Tall_poppy_syndrome).)
* It is acceptable to host a barbecue without supplying all the food and drink. The host may ask guests to bring particular items such as beverages, salad, or meat, often using the acronym "[BYO](http://en.wikipedia.org/wiki/BYO)"
* The term "[bring a plate](http://en.wikipedia.org/wiki/Bring_a_plate)" is synonymous with "[potluck](http://en.wikipedia.org/wiki/Potluck)"

### Public places

* As cars drive on the left side of the road in both countries, people moving forward will generally go to the left as well. When walking on the pavement (usually called the 'footpath'), one should walk on the left, whenever possible. When travelling on escalators or moving walkways, one should keep to the right when walking, or keep to the left when standing.[[2]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-1)
* When using [public transport](http://en.wikipedia.org/wiki/Public_transport), it is rude to board before letting other passengers disembark. It is polite to move from the aisle to the window seat if it is vacant, to allow others passengers to sit down easily.
* Trains and buses in all states of Australia and in New Zealand have seats set aside for elderly and disabled people. Sitting in these seats is acceptable but these seats should be offered to the people they are set aside for.
* Spitting on the street is frowned upon.
* When getting off a bus you may choose to say thank you to the driver, especially if they have been polite or provided a comfortable ride, although it is not bad manners if you don't.

### Bars and restaurants

* When paying a cashier, it is common to place the money in their hand. Change is usually placed in your hand in return. When paying at a restaurant it is acceptable to leave the money in the tray on the table, if one is provided. Otherwise, leave it inside the menu card and hand back to the waiter/waitress with a word of thanks. Paying at the cash register is most often the best way to avoid confusion.
* Tipping is not usually expected and some employees may not understand the gesture. Some employees are forbidden from accepting gratuities (this is mainly in positions of authority e.g. in a casino one cannot tip the dealer or a security guard however, this would not apply in a formal restaurant situation) and tipping face-to-face can create an awkward situation. However, it is appropriate to add a tip to restaurant bills if the service has been especially good. It is also acceptable to suggest that taxi drivers or waiters "keep the change", especially if the difference is small. Tips may be as large or as small as you feel appropriate. Where tip jars are provided, they are mostly used for loose change or coins.
* [Queuing](http://en.wikipedia.org/wiki/Queuing) (forming a line) is expected when there is any demand for an item. The only exception to this is a [pub](http://en.wikipedia.org/wiki/Pub). However, it is still rude to accept service from a [barman](http://en.wikipedia.org/wiki/Bartender) before someone who has been waiting longer. A simple nod or subtle gesture towards the person who has waited longer will be understood by any experienced server to mean that the indicated person was before you.
* If you are in a pub and accidentally knock a person's drink over or bump into them and cause a spillage, it is both customary and polite to buy him another one - or at least offer to do so. Failing to do so may aggravate the average Australian bar patron and possibly cause them to respond aggressively toward you.
* When out with friends, co-workers or relatives, it is common but not compulsory for people to take turns buying [rounds of drinks](http://en.wikipedia.org/wiki/Round_of_drinks). This is referred to as a 'shout', e.g. "It's my shout."[[3]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-2)
* When entering the bar of a [RSL](http://en.wikipedia.org/wiki/Returned_and_Services_League_of_Australia) (Returned Services Association - R.S.A. in New Zealand) or golf club, a man who does not remove his hat is considered rude and as a result rebuked by being told that he is expected to 'shout' (buy a round of drinks) for all those present.
* It is very rude to try to get someone's attention in a public place by saying "Oi!" or "Hey you!" or whistling especially in bars/pubs and restaurants.
* A person who takes the last item of food from a common plate, without first offering it to the others at the table may be seen as greedy or inconsiderate.
* You should treat people serving you as politely as you expect them to treat you. Use 'please' when placing an order or making a request and 'thank you' when you receive your order or service. They are there to help you, but they are not your 'slaves' or inferiors[[4]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-3)
* Complaints in restaurants are rare. Most will merely refuse to revisit an establishment after bad food or service[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-4)
* Surcharges for use of less commonly used credit cards such as Diners Club and Amex commonly apply in many Australian establishments. To avoid conflict most establishments will advertise this with a sign of some sort near the cashier area[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-5)
* Arguing or yelling with staff in a food & beverage establishment is considered rude and inappropriate[[7]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-6)
* Common restaurant manners include using the knife and fork properly, refraining from burping and placing elbows on a table, placing your napkin on your lap and leaving it folded on the table after use, and eating neatly. Chewing open-mouthed, slurping loudly and talking with a full mouth are considered rude.

### Driving

* Australians, in common with most other Commonwealth nations, drive on the left side of the road.
* Waving as a gesture of thanks to drivers that stop to allow you into their lane, exit a driveway, merging into the lane, or cross at a crossing, is viewed as polite.
* A common experience while travelling on state highways is being 'flashed' by oncoming vehicles. This is when an oncoming vehicle flicks its high beam headlights quickly but noticeably (day or night), and serves to warn drivers they are approaching a hazard: a speed camera or Police vehicle/Radar/Random Breath Test (most commonly), or a motor vehicle accident, or animals/rocks on the road . Many drivers acknowledge this with a return wave or a brief reply 'flash' of their high beam headlights.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]. It is also done to alert the other driver if they have neglected to turn their own headlights on when necessary.
* When driving on Australian highways, if you are passed by a vehicle that is towing it is customary to signal to the passing vehicle that they are far enough ahead to move back into the left lane by 'flashing' your headlights. It is then polite for the passing vehicle to quickly flash their left, right and then left indicator as a signal of thanks.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-7)
* When coming out of parking lots and driveways in an automobile, it is considered polite (and required by law) to let a pedestrian walking on a footpath pass first.
* If a fellow driver is in trouble in Australia (for example: broken down, flat tire, lost) it is polite to take some time to assist them, however if it is impossible for you to stop then it is not a necessity.

## Australia

### General

* It may be impolite for an outsider to remark on Australia's history as a [penal colony](http://en.wikipedia.org/wiki/Penal_colony). The vast majority [immigrants](http://en.wikipedia.org/wiki/Immigrant) to Australia have been free immigrants.
* Compared to many people from the UK and US, Australians may be more casual in various social situations. Those who resist this attitude may be viewed as [snobbish](http://en.wikipedia.org/wiki/Snob)[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)].
* Although viewed as a homogeneous society (70% Anglo-Celtic of predominantly English/Anglo-British origin)[[9]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-8), there is more acknowledgement of the country's growing ethnic/racial diversity.
* Making jokes at another's expense or "[taking the piss](http://en.wikipedia.org/wiki/Taking_the_piss)" is common in Australian society and is often a bonding process. However, it is frowned upon and considered cowardly to make jokes in the absence of the subject. Contrary to many other countries, Australians will generally wait until the subject is present before making derogatory jokes. For example, when an Australian meets a New Zealander on holiday, they may ask if they brought velcro gloves in order to get a better grip on those Australian sheep.[[10]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-9) (See point below re New Zealanders thoughts on sheep jokes)

### Language

* In informal situations some language that might be considered foul or offensive in other cultures may be used to convey different things. However it is considered rude and offensive to behave in this manner in front of children and women especially in rural areas.
* "[Indigenous Australian](http://en.wikipedia.org/wiki/Indigenous_Australian)" and "Aboriginal person/Torres Strait Islander" are polite terms, also regional/state preferences such as "Koori" are also acceptable as long the person in question and you both consider each other friends. Aboriginal refers to Indigenous people from the mainland, the Torres Strait Islanders are a separate group with their own cultural traditions. "Abo", "Coon", "Gin" and "Boong" or "Boonga" are all considered offensive and unacceptable in formal conversation when describing Aborigines but are sometimes in casual conversations even when one of the participants is of Indigenous descent, though this is controversial and often frowned upon. "Aboriginal" is now used only as an adjective, although older documents may still use it as a noun (eg, "Aboriginals"). Note that the words "Coon" and "Gin" are not always considered offensive in other contexts - the former being a popular brand of cheese and the latter a common drink. The politest option is to simply avoid the issue of race.
* State/ regional preferences for specific names for groups of Indigenous Australians have also arisen in recent years: The term [Koori](http://en.wikipedia.org/wiki/Koori) (or Koorie) in [New South Wales](http://en.wikipedia.org/wiki/New_South_Wales) or [Victoria](http://en.wikipedia.org/wiki/Victoria_(Australia)). Those from[Queensland](http://en.wikipedia.org/wiki/Queensland) use the term [Murri](http://en.wikipedia.org/wiki/Murri_people) (pronounced the same as "Murray"). [Nunga](http://en.wikipedia.org/wiki/Nunga) is used in most of [South Australia](http://en.wikipedia.org/wiki/South_Australia). [Noongar](http://en.wikipedia.org/wiki/Noongar) is used in southern [Western Australia](http://en.wikipedia.org/wiki/Western_Australia). [Anangu](http://en.wikipedia.org/wiki/Anangu) is used in northern South Australia, and neighbouring parts of Western Australia and the [Northern Territory](http://en.wikipedia.org/wiki/Northern_Territory). [Palawah](http://en.wikipedia.org/wiki/Palawah) is used in [Tasmania](http://en.wikipedia.org/wiki/Tasmania). However, there were over 200 different languages at the time of European settlement, which means these terms are very specific.

### Ethnic issues

* Although those of Middle Eastern, Italian, Slavic or Greek descent may make flippant use of terms such as 'Leb' or [*wog*](http://en.wikipedia.org/wiki/Wog) (as in recent film "[The Wog Boy](http://en.wikipedia.org/wiki/The_Wog_Boy)"), as well on television comedies[*Acropolis*](http://en.wikipedia.org/wiki/Acropolis) and [*Kingswood Country*](http://en.wikipedia.org/wiki/Kingswood_Country)*)* others should be wary of using what might still be received as a serious ethnic slur. The alternative term "New Australian" is becoming ridiculed, and never was the preferred term among ethnic groups. It may be used with permission between very good friends of differing ethnic backgrounds but is considered to be offensive term to use towards any other person or in a formal setting.
* In the UK, the term "paki" is considered racially offensive, however the word also evolved in parallel in Australia as a shortened form of "Pakistani". Usually used in a cricketing context, in Australian usage the word refers specifically and solely to people who are Pakistani and carries no derogatory intent.

### Indigenous Australians

* Amongst Indigenous Australians, it can be taboo to refer to deceased Indigenous Australians by name, or through use of images.[[11]](http://en.wikipedia.org/wiki/Etiquette_in_Australia_and_New_Zealand#cite_note-10) Individuals with the same names are then expected to change their name, as not to use the name of the deceased.
* Within some Indigenous Australian cultures, it is considered taboo for mother-in-law and son-in-law to interact on any level, this includes being within the same building or room at any time.
* Indigenous Australian communities have varying etiquette. In general, it is not polite to ask strangers and new acquaintances personal questions and making eye contact is often rude or threatening.

## New Zealand

### General

* When visiting someone's home for the first time, ask if you should remove your shoes.
* Queueing (getting in line) is polite in stores, post offices, banks, public transport stops and entertainment venues. It is rude to cut in ahead of others.
* In stores, bars, pubs and restaurants use 'please' and 'thank you' frequently, e.g. when asking an assistant/server a question, when placing an order (e.g. 'two glasses of beer please'), or when offering or asking for an item to the assistant/server you wish to buy (i.e. "this/these please"). When being handed change say 'thank you' and when about to leave say 'thank you'.
* Table manners are similar to the United Kingdom. Do not put your elbows on the table, do not burp, ask for shared food items to be passed to you if they are out of reach, etc.
* Do not ask others what their income is and do not talk about your own.
* It is considered rude to talk about strangers to your friend/spouse/children etc when they close by.
* Money, sex and religion are not suitable topics for conversation in public places including bars, pubs and restaurants.
* Do not ask a newly introduced person overtly personal questions or disclose too many personal facts of your own. New Zealanders are reserved, modest people and prefer to learn about others over time.
* Do not say or imply that the way your country does something is better than the way New Zealanders do it, especially if you only visiting. If you are pressed to comment on an issue be sure to make clear at the outset you understand you are "just a guest/visitor and this is only my humble opinion." New Zealanders would not openly criticise your country on your home soil unless invited to and in return do not expect you to criticise theirs on their home soil.
* Do not criticise someone's home.
* The majority of New Zealanders are an easy-going, relaxed people and do not appreciate aggressive, pushy, loud, impolite or arrogant people.
* Relax, be polite, be modest, speak softly and you will get along fine.

### Language

* Be polite. Use 'please' and 'thank you' frequently.
* You may hear people swearing in public but most New Zealanders think this is offensive and think less of the people doing it. Swear privately or with friends but not in public places.
* Keep your voice down. Talking loudly so everyone can hear your conversation is bad manners.
* Sheep related humour is likely to bring derision from the majority of New Zealanders, who see this stereotype at once [clichéd](http://en.wikipedia.org/wiki/Clich%C3%A9) and offensive, and it should thus be avoided. Although in relaxed social situations a certain amount of banter will be engaged in, it is advisable to wait until you know people well, as in any culture, before engaging in such humour.
* The term "dairy" refers to a [convenience store](http://en.wikipedia.org/wiki/Convenience_store), not a cow farm.
* It is rude to try to get someone's attention by saying "Oi!" or whistling, especially in bars/pubs and restaurants.

### Māori

* Correct pronunciation of [Māori](http://en.wikipedia.org/wiki/M%C4%81ori_language) words and placenames, and the word "Māori" itself, is often important to Māori, although usually less so to non-Māori.
* It is incorrect to pluralise "Māori" and [loan words](http://en.wikipedia.org/wiki/Loan_words) from Māori by adding an "s". Māori indicates plurality on particles (te/nga/ngati) appearing before the word rather word ending.
* Sitting on or resting one's backside against a table or desk can offend Māori. A table is where food is served and should not be touched by the "unclean" regions. Similarly, you should not sit on a pillow, the head is [tapu](http://en.wikipedia.org/wiki/Tapu_(Polynesian_culture)) (sacred), and pillows are for resting heads only.
* Shoes should always be removed before entering the [wharenui](http://en.wikipedia.org/wiki/Wharenui) (meeting house) on a [marae](http://en.wikipedia.org/wiki/Marae). Never eat inside a meeting house — the building is regarded as tapu (sacred).

### Driving

* New Zealanders, in common with most other Commonwealth nations, drive on the left side of the road. As many of New Zealand's roads, including [state highways](http://en.wikipedia.org/wiki/State_highways) outside of metropolitan areas, can be winding and narrow (often both), it is polite when a vehicle (i.e. a truck and trailer, a caravan, or a generally slower vehicle) pulls left to allow you to pass to offer two **brief** toots of your vehicle's horn (roughly the length of the words 'thank' and 'you'). Be cautious of using your horn within metropolitan areas (even as a warning device) as many drivers take exception to this as offensive and disrespectful and can result in [road rage](http://en.wikipedia.org/wiki/Road_rage). Also, use discretion in taking up a passing opportunity offered in this way as road width and traffic volumes can be unpredictable.
* The car horn is not used very often, only in emergency, or when extremely aggravated, or in [Auckland](http://en.wikipedia.org/wiki/Auckland).

### Tipping

* Tipping is seen as a foreign custom and sometimes as patronising; service is included in what you pay for. It remains fairly rare even in the main centres and should never be considered compulsory. Some cafés have "tip jars" for loose change at the counter, but putting coins in the jar is the exception rather than the rule. It has long been customary to tell taxi drivers or food delivery people to "keep the change", but taxi drivers are equally likely to round a fare down.

With the exception of cafes, bars, restaurants, taxi drivers and food delivery, people tipping is virtually nonexistent. If staff request a tip, it is considered grounds for complaint by the customer.

# Etiquette in North America

Etiquette rules in the United States and Canada generally apply to all individuals, unlike cultures with more formal class structures, such as those with nobility and royalty.[[1]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-0)

Both Canada and the United States share cultural and linguistic heritage originating in [Europe](http://en.wikipedia.org/wiki/Europe), and as such some points of traditional European etiquette apply to both, especially in more formal settings.

Among the most prominent writers on North American etiquette are [Letitia Baldrige](http://en.wikipedia.org/wiki/Letitia_Baldrige), [Judith Martin](http://en.wikipedia.org/wiki/Judith_Martin), [Emily Post](http://en.wikipedia.org/wiki/Emily_Post), [Elizabeth Post](http://en.wikipedia.org/wiki/Elizabeth_Post), [Peggy Post](http://en.wikipedia.org/wiki/Peggy_Post), Gertrude Pringle, and [Amy Vanderbilt](http://en.wikipedia.org/wiki/Amy_Vanderbilt).

## Principles

Judith Martin states that if one wishes to become an accepted member of any society or group, one "had better learn to practice its etiquette."[[2]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-msn8319038-1)

Early North American etiquette books claimed that the manners and customs of the "Best Society" could be imitated by all,[[3]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-2) although some authors lamented that the lower classes, meaning those "whose experience in life has been a hardening process," in fact treated the rules of etiquette with "contempt and ... a sneer." [[4]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-3) Current etiquette books do not employ the concept of "best society," but rather define etiquette as a set of guidelines that "help steer our behavior as we move through our daily routines"[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-postch1p3-4) and that can help deal with "the pressures of modern life [which] make it all the more difficult to stay civil."[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-postch1p3-4) This change is reflected in the content of etiquette books; etiquette books published in the early 20th century contained detailed advice on the treatment of servants, the conducting of formal dinner parties, and the behavior of a debutante;[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-5) more modern books are likely to emphasize the importance of respecting people of all classes, races, and ethnic backgrounds.[[7]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-postch1-6) Some books make a further distinction between*etiquette* and *manners*:

Etiquette is protocol, rules of behavior that you memorize and that rarely bend to encompass individual concerns and needs. Manners embrace socially acceptable behavior, of course, but also much more than that. They are an expression of how you treat others when you care about them, their self-esteem, and their feelings.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-7)

Etiquette writers assert that etiquette rules, rather than being stuffy or classist, serve to make life more pleasant.[[7]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-postch1-6)

Though etiquette rules may seem arbitrary at times and in various situations, these are the very situations in which a common set of accepted customs can help to eliminate awkwardness. While etiquette is often a means to make others feel comfortable, it is also the case that etiquette can serve to eliminate inappropriate behaviors in others by increasing discomfort.[[9]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-8)

## Basic rules

* It is inappropriate to tell others they are not following proper etiquette, unless 1) they are specifically asking whether they are being rude, or 2) the person is under your instruction, such as is the case with a parent, babysitter, teacher, or supervisor.
* One should never attempt to preemptively excuse themselves from rudeness. "I don't mean to be rude, but..." is not an appropriate beginning to a conversation. Likewise, "Pardon me for whispering" does not make the whispering acceptable.
* One may use one's unique cultural differences as a reason to be more gracious, not less. For example, saying "Well, most people in my culture don't send thank you notes" is not considered acceptable.
* When in an extreme situation where someone's rudeness is causing an intolerable issue, one should bring it to the attention of the person in authority, such as a facility's management or the police. If a situation occurs in one's own home, it is appropriate for the host to speak to the person in question (privately, if possible) and if necessary to ask the offending individual to leave.
* Judgments of individuals are a personal matter, and it is not incorrect to hold certain learned beliefs about people. However, personal opinions should remain private in polite company.

## General standards

These etiquette topics are relevant in both the United States and Canada and pertain to basic interactions in society. It is understood that these are general rules to which, in certain contexts and depending on the expectations of the parties involved, there may be exceptions.

### Bodily functions

* One should attempt to suppress yawning in polite company, concealing the mouth with the back of the hand.[[10]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-9)
* Nose-blowing and other personal habits should not be performed in the company of others, but only after excusing oneself in order to do so in private.
* One does not cough, or sneeze without covering one's mouth in front of others.
* One does not chew with one's mouth open, slurp, or make excessive noise while eating.
* Burping or farting in the presence of others should be avoided. When this occurs, it should be ignored by all parties present. In the US, however, if one burps in the presence of others (though this still should be avoided), rather than simply ignoring it, she or he is obligated to say, "Excuse me"; it is usual for the volume of this exclamation to be in proportion to the volume of the burp.
* Spitting in public is considered inappropriate.
* One should wash one's hands following contact with bodily fluids and prior to eating.

### Cultural distinctions and identity

* One does not comment on the language skills, citizenship, nationality, family history, education, economic status, social abilities, behavior, beliefs, or other personal traits of another.
* A highly important social cue in North America: One does not comment on one's race, religion, or sexual orientation.

### Gender

* When a person needs to urinate or defecate, it is customary to do so privately inside a [closed room designated for that purpose](http://en.wikipedia.org/wiki/Restroom), such as a public *restroom* (U.S.) or *washroom* (Canada). When a restroom has multiple stalls, the room may be occupied by persons of the same gender, but each stall will be occupied by no more than one person at a time. Although the room may be shared by multiple people, each person takes care to neither [discuss bodily functions](http://en.wikipedia.org/wiki/Toilet_humor) nor [observe the bodily functions of other people](http://en.wikipedia.org/wiki/Voyeurism).

### Greetings

* Greetings are offered in the form of a hand shake or a hug as dictated by the relationship's social distance and the comfort level of the parties involved.

### Hats

* Hats are generally not worn in houses or restaurants, nor in places of worship and important civil buildings. However, according to Peter Post, hats *may* be worn inside shops, in one's own house, in certain business places, and in public transit buildings (airports, etc.).
* However, as hats have severely declined in use since the 1950's, many in the US are unaware of the nuances and choose simply to not wear hats indoors at all, and that is the common rule in schools.

### Sunglasses

* Sunglasses are not worn indoors or at night.

### Language

* English is the predominant language in the United States and Canada, but is not universally spoken. French is common in areas of Canada, and Spanish is spoken widely in the United States.

### Money

* One does not discuss one's personal wealth, possessions or finances socially.
* It is not appropriate to ask about another person's salary, real estate holdings, or to make other such financial inquiries.
* Money and financial documents are concealed at all times by keeping them enclosed in a [wallet](http://en.wikipedia.org/wiki/Wallet) or [purse](http://en.wikipedia.org/wiki/Handbag). It is unacceptable to "flash" or flaunt money unless a specific amount must be presented during a financial transaction.

### Pointing and gestures

* Pointing is to be avoided, unless specifically pointing to an object and not in the general direction of other people.
* If a person is encountered who has a disability or disfigurement, it is considered rude to stare, point, whisper about, or ignore such a person. It is best to make no outward sign that the person is any different from another human being similarly situated.
* Obscene gestures are not appropriate.

### Privacy and personal space

* An arm's length of personal space is the normal comfort zone between unrelated individuals. Strangers who approach closer than this may be deemed hostile, belligerent, or sexually motivated.
* Personal matters should not be brought up except to those with whom one is highly familiar.
* Bumping into or touching an unknown person, even in a crowded area, should be avoided. If it is necessary to touch a person in order to pass by them or to get their attention, one should say, "Excuse me," "Pardon me," or "I'm sorry."
* Depending on the region and situation, it is sometimes appropriate in close quarters to navigate one's self around surrounding people with an alerting hand on the upper back or arm, lightly and never with the intent to displace said person. This is not, however, a standard practice where there is enough room to navigate safely without such.

### Smoking

* One should not smoke in another person's home or car without first asking, and even that should be avoided.
* Smoking in or near doorways of non-smoking buildings is not appropriate
* Ashes, butts, matches, empty lighters and such should be disposed of in appropriate trash receptacles.
* One should avoid blowing smoke in the direction of others, especially non-smokers; if, for example, one is smoking at a walkway and a person is walking through, she or he should either avoid exhaling a drag completely or at least redirect the smoke so as to not hit the passer-by.

### Honorifics and forms of address

* It is common in North America to use first names immediately upon meeting strangers (“Hi John–nice to meet you. I’m Clara.”), but such practices should not be followed in exceedingly formal circumstances as it is not correct etiquette.[[11]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-10) When first introduced to someone, etiquette permits only relatives or children to be addressed using first names. Otherwise, one should address another as Mr. or Ms. [*Lastname*]. It is considered appropriate to ask to be addressed by one’s first name once a friendship is established (“Please call me Shirley”' in particular formal situations, such a request can be considered a great sign of trust and intimacy.)
* While professional, academic, religious, military and political titles, such as “Judge”, “Colonel”, “Mayor”, “Reverend”, “Senator”, “Doctor”, “Professor”, *etc.*, are often used in social situations, no offense should be taken by anyone when being referred to with the titles “Mr.”, “Ms.”, “Mrs.” and “Miss” in the United States, as the United States is in theory an egalitarian society, and other honorifics are not considered higher socially.
* The stand-alone honorifics “sir” (for all gentlemen regardless of age), “miss” (for female children) or “ma'am" (for adult ladies) may be used for a person whose surname is unknown.[[12]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-11) “Mister” should not be used on its own (as in, “excuse me, Mister”) as it may sound impolite or ignorant. “Young lady” or “young man” should only be used to address pre-adolescents, as these terms are usually taken as patronizing.
* “[Ms.](http://en.wikipedia.org/wiki/Ms.)” is considered the default title to be used in conjunction with any woman’s name regardless of marital status, unless she indicates another preference. Traditionally, the title “[Miss](http://en.wikipedia.org/wiki/Miss)” was reserved for use by unmarried women, and “[Mrs.](http://en.wikipedia.org/wiki/Mrs.)” for married women. Various combinations of titles, the woman’s given and family names, and/or those of her husband have become acceptable. Any person’s personal preference should be honored once it is made known.[[13]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-12)[[14]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-13)
* There are complicated rules regarding proper usage of political titles in the etiquette-related field known as [protocol](http://en.wiktionary.org/wiki/protocol).
* [Bowing](http://en.wikipedia.org/wiki/Bowing), [genuflecting](http://en.wikipedia.org/wiki/Genuflection), or [prostrating](http://en.wikipedia.org/wiki/Prostration) oneself toward another person is socially unacceptable in most circumstances. Doing so might offend others, especially if it appears to be done in mocking or to designate servitude. One exception is the bowing of dance partners to one another, although it may be pretentious to do so except on a formal occasion or when bowing is integrally linked to the music genre. Genuflection is usually reserved for a [marriage proposal](http://en.wikipedia.org/wiki/Marriage_proposal). Prostration is usually reserved for religious worship.

## Private life

### Death and mourning

* First mourning for the immediate family is considered to be the time between the death and the end of the funeral. During this time the close relatives should not attend any social engagements, including parties or weddings.
* Dark clothing is standard at memorial services, viewings and funerals. Light-hearted talk is not inappropriate, but joviality is considered impolite.
* Attendance at a viewing, funeral, memorial service, or wake is one method of expressing one's grief to the close relatives of the deceased. In addition, letters of condolence should be sent to the nearest family member(s), and a brief, prearranged visit to the family in the weeks following are appropriate. Gifts of flowers sent to the homes of the bereaved are appropriate, though it should be noted that flowers should not be sent to Jewish households (fruit is appropriate).
* Family members may request that no flowers be sent, or that memorial donations be made to a certain charity in lieu thereof. As the bereaved is not making the request himself, this is not considered inappropriate, as it would be with any other gift-giving situation. Another common and appropriate recognition of mourning to the bereaved's immediate family is prepared food brought by neighbors or more distant relatives.
* During the weeks following a death, family members are expected to send thank you letters in reply to condolence letters, gifts of flowers, food, or donations.

### Gifts

Many etiquette errors are due to an expectation of gifts. While gifts are common in some situations, they are never to be expected by anyone for any reason. All gifts must be looked upon as unexpected, accepted graciously and enthusiastically, and thanks should be sent promptly.

* **Faux Pas:** The belief of entitlement of gifts has led to many common though incorrect practices, such as:
* Asking for the receipt when receiving a gift,
* Giving gift registry information to those who have not asked for it,
* Inviting people to wedding showers who will not be invited to the wedding,
* Requesting that gifts be "cash only", or preemptively stating "No gifts, please."[[15]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-14)
* Looking upon gifts or offers of gifts as "transferable"[[16]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-15) or "liquidatable."

**Accepting, Rejecting, and Using Gifts**

* The correct response to a gift is "Thank you," or "How thoughtful." As gifts are not expected, negative judgments of any sort are inappropriate. The following are incorrect responses:"I already have one."; "Do you have the receipt?"; "I'd like to return/exchange it for something else."; "It's not really my taste."; "Does it come in a different color?"; "I know someone who could use this."; "I like it because it's from you."

It may be appropriate to suggest you would like to exchange a clothing item for a different *size*, but more gracious to do so without involving the giver.

* One exception to accepting gifts graciously is when a gift has an expectation associated with it, i.e., strings attached. The classic example is a young woman refusing to accept expensive jewelry from a much older married man. One has no obligation to accept the "gift" of a puppy if one does not want it, as such a gift is a huge commitment and financial burden and can rightly be rejected (politely). Gifts which are meant to be insulting or are highly inappropriate may as well be returned to the giver. For example, giving a leather jacket to someone you know is a stringent vegan or animal rights activist.
* As a gift has no strings attached, the recipient has a right to do what he wishes with it, including disposing of it, selling it, or "regifting." These should be done without the original giver's awareness. Similarly, a giver should never inquire about a gift later, as this may embarrass the recipient.

**Expecting and Selecting Gifts**

* Gifts are commonly presented to children at birthday parties, and to the honoree at baby showers and wedding showers, such that there is an expectation at these events of gifts from guests. For this reason, these are also the only events where party favors for guests are to be expected. When invited to an adult birthday party presents are still expected, but are considered less important and/or trivial.
* When attending a personal or religious event, such as a birthday, wedding, shower, bar mitzvah, etc., one is supposedly sharing the celebration of a rather personal occasion. For this reason, etiquette considers the common gifts of cash, checks, and gift cards improper. One should know the honoree well enough to purchase something you believe he or she will find enjoyable. Donations "in your name" are not acceptable as the gift is not to the person (this does not apply to funerals.) If one does not really know the individual personally, the attendance at the personal event should be reexamined. Cash gifts are acceptable only for a person one supposedly does not know personally, but to whom one still wishes to give a gift, such as an employee, newspaper carrier, doorman, or delivery person.[[17]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-missmanners-16)

**Thanks for Gifts**

see also "Thank You Letters" section

* The recipient must thank the giver promptly for all non-trivial gifts, in writing, as soon as possible after receiving the gift, preferably within two weeks at a maximum. The gift in question should be named in the letter. Wedding gifts are not excepted from this rule, though there are common misconceptions that waiting for matching cards, photographs, or for the ceremony to pass are valid excuses to delay thanking people.[[18]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-17)[[19]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-18) Judith Martin states that the appropariate time frame for which to send thanks for wedding gifts is measured not in months, but in minutes.[[20]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-19)(See "Weddings" section.)

### Invitations

* Hospitality requires that when extending an invitation as a host, one anticipates and provides for the needs of the invited guests. “Strings” may not be attached to the invitation.[[21]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-20) Guest responsibilities include dressing appropriately to the occasion, and providing one's own transportation and lodging. As a courtesy, the host may include dress instructions.[[22]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-21) (See section on weddings for details on standard North American attire). A host cannot expect a guest to pay for part of the event or function, such as a portion of a birthday honoree's meal or gift.
* A person not hosting, but rather making arrangements for a gathering, such as a covered-dish meal (*a.k.a.* “potluck”), must tell those asked to attend up front what is expected from them. Expected contributions, materials, food, duties, *etc.* must be made clear when the "invitation" is issued, not after it has been accepted. If a participant is later told funds, goods, or services are expected, it is not impolite for him to reply that he has decided not to attend the function after all, as the original premise of the invitation was altered.
* Generally, etiquette writers consider it incorrect to include any suggestion that gifts are, or even could have been, expected at a hosted event, and therefore no mention of gift registries or other prohibitive or prescriptive statements on an invitation are permitted, such as "Monetary gifts only," or "No gifts, please."[[23]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-22) If a guest inquires himself, such things may only then be brought up by the host. Only overnight guests should feel obliged to bring a gift for the host.[[24]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-23)
* An invitation is meant only for the people to whom it is addressed. “*Mr. and Mrs. Jones*” does not mean “*Mr. and Mrs. Jones and any of their relatives they may wish to bring.*” If wishing to invite additional family members, the host should not add "*... and Family*," but instead should be specific rather than have the invitees guess what exactly this means. Individuals may decline or accept invitations extended to multiple persons. For example, a woman may accept an invitation extended to her entire family, even if the husband and children must send regrets (all in the same letter to the host).
* Invitations for mixed social events, such as parties, weddings, *etc.*, must be extended to the established significant others of any invitees, such as spouses, fiancés, or long time or live-in boy/girlfriends. The significant other must be invited by name, and the host should inquire if it is not known.[[25]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-24) If the couple does not live together, the host should inquire as to the partner’s full name and address and send a separate invitation for formal occasions. If a person’s socially established partner has not been invited, etiquette allows him or her to politely request that the host do so. Persons without socially established partners may not request to bring a guest, nor is a host expected to invite singles to bring a date (*i.e.*, “*[Invitee] and Guest*”).[[26]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-25)[[27]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-26)
* When receiving an invitation, one is obliged to respond in kind as soon as possible. This means if receiving the invitation by phone, reply by phone, *etc.* One must accept or decline even if “”RSVP” is not specified. To not do so is an insult to the host.[[28]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-buffalonews.com-27) Accepting an invitation is making a commitment. If one cannot be sure if the obligation can be kept, the invitation should be declined. “Maybe” is not an acceptable response, as it insinuates one would like to accept, but wants to keep his options open in case “something better” comes along. One can never cancel once one has offered or accepted hospitality. Traditionally, the only reasons considered acceptable were illness or death in the immediate family. As etiquette no longer applies only to those in high society, an ***extremely*** important work obligation which intervenes is also an acceptable reason. In any case of cancellation, notification to the host or guest must be **immediate**, with profuse apologies.
* Most formally, invitations are hand-written,[[29]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-28)[[30]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-29) but for large numbers, such as for weddings, engraved or printed invitations are acceptable, though less formal. Printing is considered less appropriate than "frank and honest" handwriting.[[31]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-30) Engraved invitations, which are more expensive than printed ones, are shipped with protective tissue paper to prevent wet ink from smudging, but as the ink has dried by the time they are received by the hosts, they should be removed before mailing to guests, and etiquette authorities consider their inclusion to be improper and a form of bragging.[[32]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-31)
* [Emily Post](http://en.wikipedia.org/wiki/Emily_Post)'s *Etiquette* gives examples of the traditional forms for formal and informal invitations;[[33]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-32) granddaughter [Peggy Post](http://en.wikipedia.org/wiki/Peggy_Post) provides updated examples of the forms in *Etiquette* (17th edition) that take into account non-traditional social relationships.
* Reply cards, with or without postage, may be included with an invitation according to some etiquette writers, though they need not be.[[34]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-33) However, Judith Martin calls response cards "vulgar",[[35]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-34) as they imply the guest would not reply without being prompted to do so.[[28]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-buffalonews.com-27)[[36]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-Martin.2C_Judith_Page_102-35) She advocates discarding them and replying on one's own stationery, while Peggy Post suggests that guests use them if included, to avoid interfering with the host's card collection system. Some say maps, directions, websites, and other information may be included.[[37]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-36) Others note that these are not formal aspects of an invitation, and therefore should not be included in formal invitations, and those who accept should instead later be sent the information via informal communication, such as postal mail, phone, or the internet.[[36]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-Martin.2C_Judith_Page_102-35)[[38]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-37) At-home cards may be included with wedding invitations. Traditionally, they announced the bride and groom's new address; they are now more likely to be used to announce the couple's choice of surnames.[[39]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-38) All etiquette authorities agree that gift registry information may not be sent with any type of invitation, however informal.

### Meals

See also [North American table manners](http://en.wikipedia.org/wiki/Table_manners#North_America)

* One excuses oneself from the company of others when leaving the table temporarily.
* A guest may politely decline when offered food he does not wish to eat.
* A host does not press a guest to consume food that has been declined.
* One does not eat in front of others outside of mealtime or when others are not similarly engaged.
* If another person has offered to buy one's meal, it is customary to permit the other person to help choose what to order, and to order a meal of similar or lesser price if a choice must be made.

### 'Thank You' letters

* Thanks may be offered for any situation. A thank you letter is not required for all situations, but is never incorrect if sincere.
* Though pre-printed thank you cards are commonly used, handwritten letters are more personal and proper. In a business context, a typed letter is expected to be signed by hand.
* Thank you letters are required for all gifts, should mention the gift, and must be sent promptly in all cases, usually within two weeks at a maximum (see "Gifts" section for further details regarding funerals and weddings).
* In addition to a thank you letter, a gift may be sent as part of thanking someone. Since a gift is given, this would in turn require another thank you note to be sent. Receiving a thank you note alone however does not require another thank you note in reply, though doing so would not be incorrect.[[40]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-39)
* If receiving a cash gift, it is polite when thanking the giver to indicate, when possible, what was purchased with it.

### Receiving guests

* When a guest receives an invitation to someone's home, it is common but not necessary for the guest to ask, "Could I bring anything?" If the host declines, the guest should not insist, as this insinuates that the host is unable to provide adequate hospitality, especially for more formal situations such as dinner parties. Hosts accepting such offers should be clear, but not demanding; if one does not think the guest will be able to provide the correct item, politely decline the offer.
* It is polite to announce your presence when arriving at an informal occasion, such as a backyard barbecue, or if dropping by unexpectedly, although the latter is a faux pas unless the host has previously indicated that such visits are welcome.
* When visiting someone's home it is not necessary but permissible to bring a gift, such as sweets, a toy for the children, a beverage to be shared, flowers, *etc.* The purpose of such gifts is recognition of the hospitality, not as a payment for it. However, if one has been received multiple times in another's home, he should reciprocate by inviting the hosts to his home, a restaurant, or another appropriate place.
* Guests wishing to give flowers should consider sending them earlier in the day or the day before a dinner party rather than bring them just as the hostess is busy with last minute dinner preparations. A host might keep a vase handy if he or she suspects that flowers will be brought by guests.[[41]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-40)
* A guest may offer to help a host, and it is more appropriate in more familiar situations. The host should turn down help offered by people he is less familiar with. Judith Martin states: "A good guest offers to help but does not insist if the offer is firmly refused. A good host never requests help and offers mild resistance if it is wanted, but firm resistance if it is not."[[42]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-41)

### Bringing and Serving Food

* Bringing elaborate food items to a meal as a gift, such as [roast beef](http://en.wikipedia.org/wiki/Roast_beef) or [lasagna](http://en.wikipedia.org/wiki/Lasagna), obviously meant to be served immediately, is impolite as it implies that the host may not be providing enjoyable food.[[43]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-42) Such a dish may be welcome at times, but the guest should inquire in advance.
* As all gifts, including food, should never have expectations attached to them, a host should always feel he is able to put them aside for another time rather than serve them right away. If one insists on bringing food as a host gift, items such as [wine](http://en.wikipedia.org/wiki/Wine), [coffee cake](http://en.wikipedia.org/wiki/Coffee_cake), [pie](http://en.wikipedia.org/wiki/Pie), or [nuts](http://en.wikipedia.org/wiki/Nut_(fruit)) are appropriate as they can be put aside. The host may reply, "Thank you. I'll look forward to enjoying this."
* Non-related guests should not bring up dietary restrictions unless first asked by the host. If worried there will be little food that one could eat, one should eat something before the visit, or decline the invitation if necessary. Relatives may discuss special dietary needs with the host, preferably when accepting the invitation, not when sitting down to the meal.
* For meals, hosts should not delay the food for more than half an hour past the invited time. Offering appetizers is a must if the meal will be served later. Likewise, guests should not be "fashionably late" when invited for meals. Drinks (water at a minimum) should be offered within ten minutes of a guest's arrival regardless of the time of day or occasion. Hosts should not be expected to hold up meals for tardy guests, especially when other guests are waiting to eat.
* A guest should have the opportunity to say, "No, thank you," before food is put on his plate. If serving food personally rather than passing it around, the polite host first asks, "Would you like some?" Not doing so might put a guest in the uncomfortable position of having food on his plate which he has no desire to eat, due to his tastes, appetite, or dietary restrictions.

#### Guests and gifts

* While gifts are customarily given, they are not to be expected by the recipient.[[67]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-66)[[68]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-67) Guests are under no obligation to spend a particular amount of money - enough to cover the supposed cost of their meal, for example - or to buy a particular gift, from a gift registry, for instance.[[69]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-68) Authorities differ on *when* a gift should be given; some say that guests have up to a year to give a gift[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)], while others state that a gift should be given before or as soon after the wedding as possible.[[70]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-69)
* Guests should not expect to receive [party favors](http://en.wikipedia.org/wiki/Party_favor).[[71]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-70) It is considered improper for hosts to announce that they have made a charitable donation "in lieu of favors" as this is the broadcasting of a private matter which would normally not be discussed with others.[[72]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-71)
* Though common in some circles, asking guests "where their envelope is," wishing wells, and [money dances](http://en.wikipedia.org/wiki/Money_dance) are considered vulgar by North American etiquette authorities, as they are blatant indications that cash gifts are expected from the guests.[[73]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-72)[[74]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-73) A wedding party member who is given an envelope by a guest should briefly thank the guest and discreetly put it away. Any guest being asked for such an item should politely state that he or she has already arranged for a gift.

## Public interactions

### Common courtesy

* In a line (or [queue area](http://en.wikipedia.org/wiki/Queue_area) in British English), it is customary to wait patiently behind the person who came before you, as most lines are [first come, first served](http://en.wikipedia.org/wiki/First_come,_first_served) in North America. Cutting in line is[taboo](http://en.wikipedia.org/wiki/Taboo); however, it is often possible to have people save places in line under ordinary and even extraordinary circumstances.
* When someone is heavily laden, a person nearby will customarily assist the burdened person. For example if he or she drops something (even a part of the burden), a person nearby may assist by picking up the dropped item. This is practiced even on the roads whenever a large or loaded vehicle requires extra time and maneuvering by giving the right of way to the loaded vehicle.
* Pedestrians have right-of-way when interacting with vehicular traffic. Courteous drivers who observe a pedestrian that appears desirous to cross the vehicle's path will customarily come to a stop and motion to the pedestrian to cross in front of the vehicle, though pedestrians unaware of this rule of etiquette might refuse to cross, in which case the driver should make a gesture of thanks and drive on quickly.
* When the aged or handicapped are amongst a group of people, the courteous will permit such a person to forgo formal rules of first come, first served. This special accommodation is particularly evident when the distances traveled are long or arduous and when able-bodied persons are expected to stand and wait in long lines.
* In times of emergency, panic, or evacuation, the able-bodied persons are expected to help those who are not able to fend for themselves. In previous times the custom included the nineteenth century adage "[women and children first](http://en.wikipedia.org/wiki/Women_and_children_first_(protocol))" when deciding who would be rescued first. The senior leader, or if none is designated, the best educated, oldest, and strongest male individual in a large group will customarily be designated the *ad hoc* group leader for the purposes of assigning tasks during an emergency. Just as the [captain goes down with his ship](http://en.wikipedia.org/wiki/Captain_goes_down_with_his_ship), the group leader is customarily the last one to be rescued.
* When driving on an unfamiliar road, a driver should pull aside and permit others to pass rather than travel slower than the prevailing local traffic.
* When fishing, it is customary to avoid crossing lines with someone else, and to avoid doing so by fishing far enough away from others.
* When operating a motorized pleasure boat, one should slow down when near fishermen, swimmers, or boats adrift to prevent large [wake](http://en.wikipedia.org/wiki/Wake).

### Doorways

* It is polite to hold a door open for someone behind you. If someone opens or holds a door open for you, it is polite to thank them.
* It is polite to step aside and wait for people exiting an elevator car, subway, train, bus, etc. before boarding.

### Formal occasions

* [Applause](http://en.wikipedia.org/wiki/Applause) is the acceptable way to show appreciation and satisfaction at a formal gathering. [Standing ovation](http://en.wikipedia.org/wiki/Standing_ovation) is reserved for an exceptional performance and for lavish praise. [Whistling](http://en.wikipedia.org/wiki/Whistling) and stamping the feet is considered brash, while [heckling](http://en.wikipedia.org/wiki/Heckler) is considered rude, as is clapping applause at certain religious events (e.g. the Roman Catholic Mass, though many congregations forgo this rule).
* When at a formal event, guests may be escorted from the back of the building to the location that they are expected to occupy during the event. The [usher](http://en.wikipedia.org/wiki/Usher_(occupation)) or escort (traditionally, a man or boy) will greet the guest, face the direction to which the guest should walk, and then smartly extend one of his elbows toward the guest to indicate that the guest should lock arms with the escort. The escort and guest will then walk together to the designated location, at which the escort will then unlock and gesture for the guest to remain. If a woman is accompanied by a man and/or children, then only the woman will be escorted and the others in her party shall closely follow her.
* In some cases, a woman's escort will be the man who accompanied her to the event, and the couple will be expected to lock arms and walk side-by-side. At other times the couple will be designated formally, such as when a [Homecoming queen](http://en.wikipedia.org/wiki/Homecoming_queen) is escorted by the one voted as the Homecoming king. The formal walk during the escort is typically slow and follows a path that is covered traditionally in [red carpet](http://en.wikipedia.org/wiki/Red_carpet).
* If [valet parking](http://en.wikipedia.org/wiki/Valet_parking) or curbside dropoff service is offered for the event, an escort may accompany guests from the moment the guests exit their vehicle, even assisting them at the door, "women and children first."
* Gentlemen should stand when a woman approaches a party at a table, or excuses herself from the table.
* When the bride enters the room during a wedding and it is her first formal appearance, all stand and look at her.
* The bride's traditional escort is her father up until the time the groom meets her, at which time the groom becomes her formal escort for the rest of the formal [wedding ceremony](http://en.wikipedia.org/wiki/Wedding_ceremony).
* At a formal wedding, it is customary for the groom to remain stationary and wait until he is formally presented with his bride.

### Greeting

* It is customary to mirror or repeat a greeting back to the person who greeted you. Examples: "Good morning" would be replied with "Good morning" and not "Hi." A greeting of "Have a nice day" might be replied with "You, too" and not "Salutations."
* If a newcomer or stranger comes into the midst of one's group or comes unexpectedly to one's familiar surroundings, it is customary to welcome the stranger and attempt to assist the person. A common greeting is, "Hi. May I help you?"

### Restaurants

See also [Table manners](http://en.wikipedia.org/wiki/Table_manners)

* It is appropriate to contact the waiter by making eye contact, nodding the head, or holding up the index finger. If necessary, "Excuse me..." or, if known, saying the waiter's name is appropriate. Shouting for, snapping fingers at, or whistling for the waiter's attention is rude.
* Diners may speak to servers, and should use polite terms such as "please" and "thank you," but need not feel compelled to if engaged in conversation with a fellow diner.

### Seating

* In North America people are accustomed to sitting in most public venues. The most common way to sit is on a [chair](http://en.wikipedia.org/wiki/Chair), [couch](http://en.wikipedia.org/wiki/Couch), [bench](http://en.wikipedia.org/wiki/Bench_(furniture)), or [pew](http://en.wikipedia.org/wiki/Pew). [Stools](http://en.wikipedia.org/wiki/Stool_(seat)) are offered in some establishments. It is uncommon for people to sit directly on the ground except at informal outdoor gatherings.
* If seating is limited (or there is [standing-room only](http://en.wikipedia.org/wiki/Standing-room_only)) in public transportation or waiting areas, it is polite for people in good health to offer their seats to those with special needs, such as the frail, disabled, people with infants, and pregnant women.[[75]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-74) It is impolite to assume someone is in good health and to ask them to give up a seat, or to chastise them for not having offered. A young person who appears healthy may, for example, have an orthopedic problem and may need the seat more than a healthy 75-year-old.
* It is not impolite for a gentleman to offer his seat to a woman, nor for the woman to politely decline.
* When enough seats are available (such as at a movie theater, uncrowded bus, park bench, or waiting room), strangers should sit at least one seat apart. If seating later becomes limited, it is common for the company responsible for the seating arrangements to send an usher or make an announcement admonishing patrons to "squeeze in" or sit closer together until the full capacity is reached.

## Shoes

* It is appropriate to wear shoes at every social gathering except for swimming and beaches.
* In most homes in the United States, guests are expected to keep their shoes on unless the host requests that shoes are removed. In Canada, the opposite is polite

### Tipping (gratuities)

* Tipping is done only by the host of a party; therefore guests should not leave additional tips. This applies to bar service at weddings and any other party where one is a guest. The host should provide appropriate tips to workers at the end of the event.[[76]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-75)
* The customary gratuity for satisfactory service is between 10% and 20% of the non-tax total of the bill. Bartenders may anticipate higher tips. For further details on tipping standards in North America, see the "[tipping](http://en.wikipedia.org/wiki/Tip_(gratuity))" article.
* If one receives very poor service, it is best to speak to management so that the problem may be resolved. It is permissible in an extreme situation not to tip.
* Public servants, government agents, security guards, and police officers do not accept tips in North America. It is not only considered inappropriate, it is generally illegal to offer a gratuity to public officials because it may be considered bribery or graft.

### Worker interactions

* Workers such as waiters, store employees, receptionists, and government employees, should be spoken to with civilities such as "please" and "thank you." Snapping fingers, calling out loudly, waving money, or whistling for an employee's attention are not appropriate.
* Workers should refrain from wearing strong fragrances when working in close proximity to others (e.g. closed offices).
* While it is common for some to address co-workers or customers with terms such as: hon, dear, sweetie, darling, doll, honey, *etc.* (particularly in the American South), these terms are considered patronizing, unprofessional and condescending by many and should be avoided.[[77]](http://en.wikipedia.org/wiki/Etiquette_in_Canada_and_the_United_States#cite_note-76) Proper terms are "Sir", "Ma'am," or "Madam", or if the name is known, Mr./Ms./Mrs./Miss [Lastname].
* When paying a cashier, it is inappropriate to toss money onto the counter. It is preferable to hand the money to the cashier with the bills unfolded. The cashier should hand back change in the same manner.

# Etiquette in Europe

From Wikipedia, the free encyclopedia

**Etiquette in Europe** is not uniform. Even within the [regions of Europe](http://en.wikipedia.org/wiki/Regions_of_Europe), etiquette may not be uniform: within a single country there may be differences in [customs](http://en.wikipedia.org/wiki/Norm_(sociology)), especially where there are different linguistic groups, as in [Switzerland](http://en.wikipedia.org/wiki/Switzerland) where there are [French](http://en.wikipedia.org/wiki/French_language), [German](http://en.wikipedia.org/wiki/German_language) and [Italian](http://en.wikipedia.org/wiki/Italian_language) speakers.[[1]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-PiE-0)

Despite this heterogeneity, many points of etiquette have spread through Europe and many features are shared. The ancient Roman Empire is an historical source, and the cosmopolitan royalty and also nobility were effective in spreading etiquette throughout Europe. For example in the [château](http://en.wikipedia.org/wiki/Ch%C3%A2teau) of [Versailles](http://en.wikipedia.org/wiki/Versailles), where French nobility was concentrated, a complicated etiquette was developed.

For less reviewed pseudo-information on variations of stereotypes per country in Europe: <http://en.wikibooks.org/wiki/National_etiquette_differences_in_Europe>

## Language and forms of address

It is never acceptable to write an anonymous letter or one that purports to be signed by somebody other than the writer (but does not make that clear).

Many languages use different pronouns to denote formality or familiarity when addressing people (the [T–V distinction](http://en.wikipedia.org/wiki/T%E2%80%93V_distinction)). This also applies in common phrases such as "How are you?".[[2]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-1) The use of an inappropriately familiar form may be seen as derogatory, insulting or even aggressive. Conversely, forms that are inappropriately formal may be seen as impolitely snobbish[[3]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-2) or distant.

The way politeness is expressed varies greatly with language and region. For example, addressing a person with an honorific or title may be expected in some languages, but seen as intrusive or too formal in others.

In many parts of Europe, using someone's first name also denotes a certain level of friendship. In social interactions with strangers, the last name and/or more formal mode of address is used, usually until the people involved agree to move to an informal level. But this may not apply among young people, among members of particular groups (e.g. students) or in informal settings.[[4]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-1.2C2122.2C.2C00.html-3)

## Flowers

In some countries, certain flowers (such as [chrysanthemums](http://en.wikipedia.org/wiki/Chrysanthemums)) are given only at funerals[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]. In France, red roses are given when someone is in [love](http://en.wikipedia.org/wiki/Love).[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-4) In [Finland](http://en.wikipedia.org/wiki/Finland), the same applies except that school leavers are often given red roses on passing their [matriculation examination](http://en.wikipedia.org/wiki/Matriculation_examination) ([abitur](http://en.wikipedia.org/wiki/Abitur)).[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-Virtual_Finland-5) Yellow flowers are inappropriate at weddings in Ukraine and Russia as they are viewed as a sign that the bride or groom are unfaithful to one another[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]. In Victorian Britain, an elaborate system of [language of flowers](http://en.wikipedia.org/wiki/Language_of_flowers) developed.

## Hats and coats

Among many segments of the European population, it is considered rude to wear hats or other head coverings indoors, especially in churches, schools, private homes and respected public institutions. In churches, however, ladies are often exempt from this rule or even obliged to cover their heads in[some Catholic churches](http://en.wikipedia.org/wiki/Christian_headcovering).

Wearing coats, boots or other outer garments inside someone’s home is often frowned upon as well. Sitting down to eat at table wearing a hat or coat etc. is even worse. Also one should remove one's hat when showing deference. Removing one's hat is also a form of greeting: the origin of this is that knights were expected to remove their helmets when meeting their king; not to do so would be a sign of mistrust and hostility.[[7]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-6)

## Shoes

In some European countries you have to wear your shoes indoors, but in others, such as [Austria](http://en.wikipedia.org/wiki/Austria), Belarus, [Bulgaria](http://en.wikipedia.org/wiki/Bulgaria), [Poland](http://en.wikipedia.org/wiki/Poland), [Slovakia](http://en.wikipedia.org/wiki/Slovakia), [CzechRepublic](http://en.wikipedia.org/wiki/Czech_Republic), [Croatia](http://en.wikipedia.org/wiki/Croatia), [Estonia](http://en.wikipedia.org/wiki/Estonia), [Germany](http://en.wikipedia.org/wiki/Germany), [Finland](http://en.wikipedia.org/wiki/Finland),[Sweden](http://en.wikipedia.org/wiki/Sweden), [Denmark](http://en.wikipedia.org/wiki/Denmark), [Hungary](http://en.wikipedia.org/wiki/Hungary), [Romania](http://en.wikipedia.org/wiki/Romania), [Iceland](http://en.wikipedia.org/wiki/Iceland), [Russia](http://en.wikipedia.org/wiki/Russia), [Ukraine](http://en.wikipedia.org/wiki/Ukraine), [Norway](http://en.wikipedia.org/wiki/Norway) and [Bosnia and Herzegovina](http://en.wikipedia.org/wiki/Bosnia_and_Herzegovina), it is considered rude not to take your shoes off, unless you are told to keep them on. It is usual all over the world to remove shoes when entering someone's home if they are wet or dirty.

## Money

Talking or asking about one's personal wealth, possessions or success in business is widely viewed as [vulgar](http://en.wikipedia.org/wiki/Vulgar). People will rarely say how much money they make or have in the bank nor will they request such information from someone else. It is impolite to ask colleagues about their salary and in some places of work it is forbidden.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Europe#cite_note-loonzakje-7) Even elsewhere, for example where government employees' salaries are publicly known, it is still considered extremely rude to ask individuals how much they earn.

## Transport

When using escalators in the Netherlands, France, Spain, Russia and the United Kingdom people will keep to the right when standing still, so that those on the left can keep walking. Of course this does not apply to very narrow escalators. In countries where this rule isn't widely known signs are sometimes displayed, for example, in Germany: "rechtsstehen, links gehen" – "stand on the right, walk on the left". All European countries except Britain, Ireland, Malta, and Cyprus drive on the right. In early times, medieval nobility kept their sword ready to draw with the right hand, so that pedestrians and equestrians would pass one another on the left. However, later, teamsters would drive large wagons with no driver's seats. While keeping the whip on the right hand and the reins on the left, they would sit on the left horse, and drive on the right side of the road, in order to see that the wheels on the left would not collide with oncoming traffic. Nowadays cars drive on the right (with driver's seat at left), and pedestrians walk on the left if there is no footpath. This is included in road safety guidelines as it is easier for pedestrians to see oncoming traffic than traffic approaching from behind. (See Right- and left-hand traffic.)

## Queuing

UK citizens queue in straight lines. It is rude to attempt to cut in line or to ask to go ahead of someone, and they may decline the request.

## Exposure

In Europe, what qualifies as [indecent exposure](http://en.wikipedia.org/wiki/Indecent_exposure) includes generally at least the exposure of genitalia or anus. In case of women, exposing nipples is not seen as proper conduct, but this is not always considered criminal, and depends on individual countries' nudity laws. For the issue of breastfeeding babies in public, see [*Breastfeeding in public*](http://en.wikipedia.org/wiki/Breastfeeding_in_public). The intentional exposure of bare buttocks towards someone, [mooning](http://en.wikipedia.org/wiki/Mooning), is a deliberate insult. However, [public nudity](http://en.wikipedia.org/wiki/Public_nudity) may be allowed in some circumstances, which vary by country.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)] On nudist beaches and in the changing rooms of swimming pools in some countries, keeping one's clothes on is frowned upon. Here it is good manners to undress. In [saunas](http://en.wikipedia.org/wiki/Sauna), the rules about nudity vary according to the country. Because one uses the sauna naked, one brings at least one towel to sit on. In most saunas, one can also rent towels. Also, a kind of flip-flops are worn in saunas, not directly in the sweating rooms or in the steam rooms, but outside in the area for relaxing.

## Eating

[Table manners](http://en.wikipedia.org/wiki/Table_manners) in Europe vary widely according to region and social context. Placing one's elbows on the table may be considered rude, as is speaking with one's mouth full. Generally the fork is held in the left hand, using the right to cut food into pieces.

## Bodily functions

Public display of bodily functions such as flatulence, burping, urinating, defecating, picking one's nose, loud snorting, belching are generally considered vulgar and/or disgusting. It is considered impolite not to cover one's mouth while yawning, sneezing or coughing, especially at the table. Opening ones mouth to talk whilst it contains food is also considered vulgar.

Spitting in the street is generally frowned upon and can actually be considered a misdemeanor in Britain, though such laws are rarely enforced

# Etiquette in Latin America

**Etiquette in Latin America** varies by country and by region within a given country.

## Generalizations

There are several definitions of Latin America, but all of them define a huge expansive of geography with an incalculable amount of different customs. However, some generalizations can be made:

* As every definition of Latin America connotes a shared cultural and linguistic legacy with roots in [Spain](http://en.wikipedia.org/wiki/Spain) and [Portugal](http://en.wikipedia.org/wiki/Portugal), and to a lesser extent [France](http://en.wikipedia.org/wiki/France), many points of [etiquette in Europe](http://en.wikipedia.org/wiki/Etiquette_in_Europe) are applicable, especially those specific to those nations.
* Some countries in [South America](http://en.wikipedia.org/wiki/South_America), primarily [Argentina](http://en.wikipedia.org/wiki/Argentina) and [Uruguay](http://en.wikipedia.org/wiki/Uruguay) have more European cultural traits and influences.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Compared to much of the [English](http://en.wikipedia.org/wiki/English_language)-speaking world, people from areas of Latin America may demonstrate more relaxed and casual behavior and be more comfortable with loud talk, exaggerated gestures and physical contact.[[1]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-AR2006090701067.html-0)
* In addition, many Latin American people have a smaller sense of [personal space](http://en.wikipedia.org/wiki/Personal_space) than people from English-speaking cultures. It may be rude to step away from someone when they are stepping closer.[[1]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-AR2006090701067.html-0)
* In addition to varying greatly from one individual to another and along various demographic lines, this tendency towards comparatively warm and relaxed behavior does not necessarily hold true among many communities of [indigenous peoples](http://en.wikipedia.org/wiki/Indigenous_peoples), including those who have adopted [Spanish](http://en.wikipedia.org/wiki/Spanish_language) or [Portuguese](http://en.wikipedia.org/wiki/Portuguese_language) as their primary language.
* At some finer restaurants, it may be considered rude for the staff to bring a customer the check without the customer first requesting it.[[2]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-2006_08.html-1)
* Getting the last snack or canape left in a plate without offering it around first makes the person seem rude/greedy.
* It is considered impolite to "toss" objects to people instead of directly handing it to them.[[3]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-spanish-culture.htm-2)
* At the workplace, indiscretions, errors or overall poor performance should be pointed out in private. Mentioning them in front of other colleagues (such as in a meeting) is perceived as hostile.
* The American "come here" [gesture](http://en.wikipedia.org/wiki/List_of_gestures) of palm upwards with the fingers curled back can be considered a romantic solicitation.[[3]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-spanish-culture.htm-2)
* Throughout Latin America, there are communities of people with strong ethnic and cultural ties to other parts of the world. One example is the 1.5 million strong [Japanese Brazilian](http://en.wikipedia.org/wiki/Japanese_Brazilian) community for whom certain points of [etiquette in Asia](http://en.wikipedia.org/wiki/Etiquette_in_Asia) may be applicable. Some of these same points of etiquette would apply in [Chinatowns in Latin America](http://en.wikipedia.org/wiki/Chinatowns_in_Latin_America). [Argentina](http://en.wikipedia.org/wiki/Argentina) has large communities of[German Argentines](http://en.wikipedia.org/wiki/Germans_in_Argentina), [Irish Argentines](http://en.wikipedia.org/wiki/Irish_Argentine), and so on.
* In many instances, points of etiquette applicable to Latin America will also hold true with [Latino](http://en.wikipedia.org/wiki/Latino) people in the [United States](http://en.wikipedia.org/wiki/United_States).
* Phrases like "in America" or "I'm from America" (especially when speaking Spanish) when referring to the United States is confusing or offensive to Latin American people as America is a continent, not just the United States. Therefore, all people born in the American continent are Americans. People from the United States of America are referred to by their nationality, "estadounidense" or "Norte americano" (lit. "United-Statian" or "North-American"). (But of course "North-American" is problematic for exactly the same reason just mentioned. Canada and Mexico are also part of the North American continent.)
* Many elements of U.S. American culture left an imprint on life in Latin America, but it is ill advised to bring up topics or discuss subjects about the impact of U.S. Foreign policy.
* Avoid talk of racial issues: Latin Americans have a history of the merger of the European and indigenous races into the [mestizo](http://en.wikipedia.org/wiki/Mestizo), while other nations like Cuba, the Dominican Republic, Puerto Rico, Panama, Colombia and Venezuela have large percentages of African and mixed race African/Caucasian ancestors. In [Costa Rica](http://en.wikipedia.org/wiki/Costa_Rica) and [Chile](http://en.wikipedia.org/wiki/Chile), many of the inhabitants rather identify themselves as "white" or [castizo](http://en.wikipedia.org/wiki/Castizo), a variant of the colonial [casta](http://en.wikipedia.org/wiki/Casta) system no longer in official practice, but each Latin American country has a unique different identity of their own. A few like[Guatemala](http://en.wikipedia.org/wiki/Guatemala) and [Paraguay](http://en.wikipedia.org/wiki/Paraguay) have a larger racial Amerindian minority and most inhabitants speak an indigenous language.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* [Religion](http://en.wikipedia.org/wiki/Religion_in_Latin_America) is not to be taken lightly; many Latin Americans are devoted to their faith, especially the [Roman Catholic Church](http://en.wikipedia.org/wiki/Roman_Catholic_Church) from its Spanish and Portuguese colonial past, which is a major force in life in the majority of countries' polity and social life. Festivals and holidays dedicated to patron [saints](http://en.wikipedia.org/wiki/Saints) and holy figures of Catholic Christianity are celebrated. A few nations: [Argentina](http://en.wikipedia.org/wiki/Argentina), [Cuba](http://en.wikipedia.org/wiki/Cuba)and [Uruguay](http://en.wikipedia.org/wiki/Uruguay) are comparably more [secular](http://en.wikipedia.org/wiki/Secular), where nominal church membership but irregular attendance is a common trait and even a stronger sense of the [separation of church and state](http://en.wikipedia.org/wiki/Separation_of_church_and_state)(same goes with post-revolutionary [Mexico](http://en.wikipedia.org/wiki/Mexico)), though all of Latin America governments guarantee the right of or had granted the [freedom of religion](http://en.wikipedia.org/wiki/Freedom_of_religion).[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

## Specific regions

The following points of etiquette apply most specifically to a certain region:

### Argentina

* Sunday is commonly the day Argentines gather in family for lunch or dinner.
* Table manners are Continental: hold the fork in the left hand and the knife in the right while slicing.
* Do not begin eating until the hostess invites you to do so.
* If you happen upon others that are about to eat, it is very considerate to say "buenprovecho" or simply "provecho" (lit. "I hope the food is good for you"). The same should be said if you need to excuse yourself early from a meal.
* In a formal setting, wait for a toast to be made before taking the first sip of your drink.
* If a toast is made, which can happen at various points during a dinner, make sure your glass isn't empty before joining in, as it is considered bad luck to toast with an empty glass.
* Likewise, you should take at least a sip of your glass after toasting and before placing your glass back on the table, as not doing so is considered bad luck.
* If a toast is done in a formal setting, you will have to softly bump glasses with the people near you. In a less formal setting you will probably have to bump glasses with people beyond arm's length, for which all the guests will raise from the chairs and travel around the table.
* A kiss in the cheek with or without a hug is a standard greeting amongst both men and women, with both people of the same or the opposite sex, except in very formal settings. Two kisses (one in either cheek) are common in some areas, again regardless of the gender of the participants. Handshakes are also common but generally reserved to men. A different version of the handshake in which the hand is wrapped around the other person's thumb and back of the palm is common amongst younger people but strictly informal.
* "Gracias" ("Thank you") should be followed a response of "de nada" (lit. "it's nothing", equivalent to "you are welcome"), except for the instances mentioned below.
* When someone sneezes, you should say "Salud" (lit. "health", equivalent to "bless you"). The appropriate response for this is "gracias", which should not be followed with "de nada".
* If you are offered [mate](http://en.wikipedia.org/wiki/Mate_(beverage)) and you do not wish to partake of it, you might say "No, gracias" ("no, thank you"). If, however, you start drinking, you are expected to continue accepting mates until you signal that you have had enough. You do this by saying "gracias" after finishing and returning your last mate. This will not be followed by "de nada".
* It is often considered rude to point at a person or even an object with the index finger. People typically point with the whole hand or with a movement of the head and a puckering of the lips towards that which is being indicated.
* You are expected to greet the people you meet, and if visiting somewhere, or in a work environment, saying goodbye before you leave. A number of expressions are available that vary according to familiarity with the other persons or with the time of day. "Buenos días/Buendía" ("good morning"), "buenastardes" ("good afternoon") and "buenasnoches" ("good evening") are formal and adequate in every occasion. "Hola, quétal?" ("Hello, what's up?"), "hasta luego", ("see you later"), "hasta mañana" ("see you tomorrow") and a large number of similar variants are more informal but generally adequate. "Buenas" (short for "buenosdías/buenastardes/buenasnoches", "chau" ("bye", derived from the Italian [ciao](http://en.wikipedia.org/wiki/Ciao)), etc., are very informal, though not necessarily improper.
* Younger people are expected to give their bus seats to the elderly, and men to women.
* Punctuality is not generally observed, at least in informal settings.
* Gifts are generally opened when received, and the receiver is both expected to make some degree of fuss about it, as well as insisting that the giver should not have bothered, thus showing their gratitude. This won't be the case in large parties (weddings, some birthday parties) were the gifts are placed in special tables and opened later, in private.
* Public displays of affection are generally fine.
* If you are invited to dinner at someone's home, it is good manners to bring something for the dinner. A bottle of wine is a good choice, as is some dessert.
* Hats and sunglasses should not be worn indoors.
* It is considered bad manners to sneeze, cough or yawn without covering your mouth with your hand or with a handkerchief. Blowing your nose at a table is frowned upon. Other public displays of bodily functions are generally considered rude and should avoided.
* It is expected that you will tip the waiter.
* The [Malvinas](http://en.wikipedia.org/wiki/Malvinas)/Falkland War is a very sensitive issue that should probably be avoided unless you are very familiar with it. If you call the Islands "Falkland" rather than "Malvinas", you will be seen as supporting the British side of the conflict, and thus considered hostile to the country.
* [Futbol](http://en.wikipedia.org/wiki/Soccer) is a very popular subject of conversation, though it is possibly to cause heated arguments, so tread lightly around this.
* Most but not all social norms in [Uruguay](http://en.wikipedia.org/wiki/Uruguay) are similar. But remember Argentina and Uruguay are different countries.

### Bolivia

There are important differences in social interactions and customs between the Andean area and the lowlands. The following apply mostly in the Andean area.

* When hosting you need to serve any kind of food to your guest and insist that they eat. Putting a plate of [finger food](http://en.wikipedia.org/wiki/Finger_food) in the middle for people to help themselves creates an awkward situation for most Bolivians.
* Bolivians acting as host will often belittle and apologize for the food they are serving. This is just politeness.
* When you finish eating in company, even strangers, you must say "Buenprovecho" or "Queaproveche". This is answered with "gracias" which is not followed by "de nada".
* In the countryside guests will be served a plate and left alone to eat. This is courtesy and goes on until you've been accepted as a close friend of the family.
* Andean people are not very tactile. Cheek-kissing with women is a sign of closeness. In the city any [public display of affection](http://en.wikipedia.org/wiki/Public_display_of_affection) between a couple, starting from holding hands, even if married, is at least awkward. Among young whippersnappers, friends of the same sex may hold hands and even hold each other by the shoulder, in public. Handshakes are softer and as a show of appreciation may hold a little longer, only between friends of the same sex.
* Politics, socioeconomics and racial groups are sensitive topics one should not get into in discussion.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]

### Brazil

* Brazilians speak [Portuguese](http://en.wikipedia.org/wiki/Brazilian_Portuguese), *not* Spanish. Addressing someone who speaks Portuguese in Spanish, although most Brazilians understand Spanish to a reasonable degree, may be considered very offensive.[[4]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-3)[[5]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-4)
* In [Brazil](http://en.wikipedia.org/wiki/Brazil), a form of the American ["okay" gesture](http://en.wikipedia.org/wiki/A-ok) may be obscene when directed at someone. However, the standard "okay" gesture is also used, as is the "[thumbs up](http://en.wikipedia.org/wiki/Thumbs_signal)" gesture.[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-airman.2F0406-5)
* The number 24 is strongly associated with homosexuality in Brazil. Giving someone anything with that number (i.e. a jersey) might be badly understood, but playful among close friends.
* The gesture of "flipping someone off" by hitting the wrist against the inside of the elbow (sometimes called "a banana" in Brazil) is considered playful and not very offensive (in some other parts of the world, this is more akin to "[the finger](http://en.wikipedia.org/wiki/The_finger)").[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-airman.2F0406-5)
* Giving someone of the opposite gender a gift may be misinterpreted as a romantic overture, except in birthdays.[[7]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-new006.html-6)
* Men shake hands on meeting and departing. They may share a hug if they are close friends. Men and women kiss on the cheek when greeting, women kiss each other on the cheek. The number of times people should kiss, alternating sides, varies according to the region, being three, two times or just once.
* Personal questions may be asked at an earlier time than what North Americans and Europeans are accustomed to. Nevertheless, questions about finances and personal gains are often considered rude.
* The concept of personal space is much less stringent than in (say) the United States. Brazilians may stand much closer to each other than Americans normally tolerate. For instance, people greeting each other on a public stairway may almost entirely block the passage of other people, expecting them to simply force their way through or squeeze around. Likewise, in crowds, physically bumping into other people is not only not seen as an offense (as it is in the U.S.A) but is also somewhat expected.
* When offering something, especially food, Brazilians will often repeat the offer several times and with increasing enthusiasm. Offering something only once can be rude. It is not impolite to refuse such offers, and in some cases they may be made just to be polite without really hoping a person will accept.
* In some parts of the country, most notably in rural areas in which homes may not have doorbells, the appropriate action is to stand in the yard and clap one's hands. If no one comes to the door, then the visitor may approach the door, knock, and then step back away from the door and await a response. This is especially applicable in regards to small, thin-walled cottages that offer less privacy than homes in North America.[[6]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-airman.2F0406-5)
* People in Brazil are very receptive and not formal. Calling a young woman "Senhora" may be considered offensive. The word "Senhorita" (lit. little miss) is not used and is seen as an archaism.
* Punctuality is not taken too seriously in Brazil. Showing up exactly on schedule for a party is very uncommon. Sometimes is considered rude to show up on time[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]; a half an hour delay is common.
* Different from other cultures, it is considered rude not to open the gift in front of the person who gave it.

### Chile

* In [Chile](http://en.wikipedia.org/wiki/Chile), good etiquette calls for wine to be poured with the right hand, and wine glasses should always be held by the stem.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-South-America-travel-tips.htm-7)
* The customer of a restaurant must ask for the check for it to be brought.
* In past generations it was somewhat common for women and young men to greet male and female friends with a kiss on the cheek; however, for many years the trend has been to cheek-kiss only between men and women or among women (that is, not between men). Close male friends more typically greet one another with an *abrazo* or male hug, which usually does not involve face contact.
* Chileans tend to stand close to one another while talking or queuing. This is in part because Chileans typically do not recognize European queue etiquette and discipline.
* Opening the door for a woman or helping her with her luggage, etc., is not considered a flirtatious action.
* It is common for men to stare at women. (It is considered harmless and meant to flatter.)
* Women should be prepared to be bombarded with catcalls. (It is considered harmless and meant to flatter.)
* Both practices to attract the opposite sex are actually inappropriate in a professional setting.
* When eating in company, you should not put your hands under the table.
* Tipping bellboys and people who pack things on the supermarket can be considered a must sometimes, thus when not doing so it is recommendable to state you do not have money, but never that you do not want to do so.
* It is well looked upon to offer your seat to elderly people or pregnant ladies when inside public transport.
* Chileans, both male and female, tend to use lots of rude words when in confidence. Do not take this as an insult, it's meant to be endearing, but do not try to use those words yourself as it will appear highly humorous to them.
* When smoking, offer a cigarette to everyone. Chileans have a saying for those who neglect to share: "Did you learn to smoke in jail?"
* If two or more people are having a conversation and you need to leave or want to leave it is well looked to say *disculpe* ("excuse [me]") or *permiso* ("[with] permission").
* It is usual to greet family members with a kiss on the cheek.
* It is common for children to be prompted to greet everyone who already has greeted the adult that is with him or her.
* The term "caballero" is more commonly used than "señor" to politely address or refer to a male in public.
* Avoid discussion about politics (in regard to a history of democracy with civil unrest) or authoritarian leaders (*e.g.*, Pinochet), or making comments about Chilean backwardness (such as the high crime rate, or the deplorable state of public education and prisons in Chile). Even when Chileans themselves strongly criticize their own country, it would be considered quite insulting for a foreigner to make such comments.

### Colombia

* Gifts are never opened in public unless the giver insists.
* Group waves are extremely unacceptable.
* After finishing dinner, expect to stay for a few hours. Leaving right away might be perceived as that you were there only for a free meal.
* Avoid discussing the [drug trade](http://en.wikipedia.org/wiki/Illegal_drug_trade). This is a delicate subject in Colombia.
* The elderly are given high respect; men are often referred to as Don and women as Doña, followed by their first names.
* There is a strong sense of cultural regionalism in Colombian society. Many Colombians (especially but not exclusively the older generation) identify themselves first with their home region, then their nationality. This is particular true in [Antioquia](http://en.wikipedia.org/wiki/Antioquia_Department) and [Valle](http://en.wikipedia.org/wiki/Valle_department) departments. Bogota, being Colombia's melting pot, might not necessarily reflect such regional identity.
* Colombians that do not know each other typically begin every issue with small talk, no matter how trivial. "Getting to the point" immediately might be seen as impatient and impolite.
* Colombians have a great variety of regional accents. If you speak fluent Spanish, do not try to imitate the accents, for it may be viewed unfavorably by some.
* It is considered improper and slightly immature for adult men to wear shorts (except in recreational areas, such as parks, the beach, or pools).
* It is not usually acceptable to drop by someone's house without calling.
* In most areas (i.e. [Bogotá](http://en.wikipedia.org/wiki/Bogot%C3%A1)) it is common for men to greet women friends by kissing once on the cheek if they are friends. Kissing a strange woman is considered impolite sometimes (more if you are in a business gathering), especially if she is an elder.
* It is considered polite to say thanks after common actions such as someone opening a door, offering or giving something to drink or eat, or when plates are taken from the table, and after most routine actions whenever they are not expected.
* When referring to someone's height in a conversation, Colombians usually make a distinction between animals and humans in a visual manner by positioning their hand with the palm facing the floor when talking about animals and with the palm facing to the side (like when one is to give a handshake) when talking about humans height.
* Most Colombian women in urban areas respond gladly to decent male flattering (known as *piropo*). This is quite different from other countries where such expressions could be seen as sexual advances.
* People in Bogota and the central region of Colombia and to a lesser degree in some other parts of the country could be sensitive to the use of formal and informal Spanish. For example, in a business meeting it might not be appropriate to use the informal you (*tu*) instead the formal you is used (*usted*). See [Spanish conjugation](http://en.wikipedia.org/wiki/Spanish_conjugation).
* In Bogota the wearing of sandals or open shoes by women is frowned upon in some exclusive commercial locations.
* Unlike the U.S., most (if not all) restaurants include the tip in the total amount to be paid by the customer; you may choose not to pay it anyway.

### Dominican Republic

* The [Dominican Republic](http://en.wikipedia.org/wiki/Dominican_Republic) has a history of some strong cultural connections with the [USA](http://en.wikipedia.org/wiki/USA).
* Dominicans tend to be direct in social situations, but are subtle when making requests and offering criticism.
* Personal questions may be asked at an earlier time than what North Americans and Europeans are accustomed to.
* Dominican society is extremely family-oriented; thus, [nepotism](http://en.wikipedia.org/wiki/Nepotism) in organizations and workplaces is regarded as a good thing.
* Avoid discussing Haitian immigration, Dominican emigration and racial identity (most of the population are mixed-race African/Caucasian). Most people will let you know what they want to speak about so just listen. Most Dominicans love to talk about what is happening in the country; they might even battle each other about a certain topic.
* Salsa, merengue and even reggaetón may seem like "sexy dancing", but there are unspoken rules. It is rude for a man to dance too close to a woman who is not his wife or girlfriend, even if others seem to be doing it. (The same rules apply in [Puerto Rico](http://en.wikipedia.org/wiki/Puerto_Rico).)
* Dominicans also expect you to look your best at all times. This is seen especially in the women who take pride in their appearance.
* When an invitation is issued (such as to go to dinner or to a bar), invitees typically assume that everything will be paid for. The same is true in Mexico and in other parts of Latin America.
* Dominicans are extremely friendly people. They usually shake hands and give a kiss upon the cheeks when they are introduced to someone or when they come across a known friend.
* The man is the one supposed to pay during a date.
* A woman never approaches a man first (usually).
* Is not considered polite to ask a woman about her age (also common in Puerto Rico and much of North America).
* When you're eating and someone arrives, the eater says "a buentiempo" (it means "you're arriving in good time"). It is usually polite to say "buenprovecho" (meaning "good eating", also subtly meaning "have a nice meal").
* Dominicans love to talk, but politeness is important in conversation.
* Dominicans are not punctual (more common in informal settings, less so in professional), usually arriving around 40 minutes after the scheduled time.
* The most popular sport in the country is baseball, so this should be the right choice of conversation.

### Ecuador

* Visitors to [Ecuador](http://en.wikipedia.org/wiki/Ecuador) often marvel at the brightly-colored traditional attire of natives. However, it is impolite to [photograph](http://en.wikipedia.org/wiki/Photograph) someone before asking permission. Some people will ask for a tip in exchange for this favor and to begrudge them this source of income is considered unkind.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-South-America-travel-tips.htm-7) Moreover, do not dress in traditional attire; this will be perceived as mocking the local culture. Only the natives are entitled to do so, not even Ecuadorians from the city (non-Indians and rural areas).
* Beachwear should only be worn at the beach and not in towns. The same is true with short pants for adults, both male and female.[[8]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-South-America-travel-tips.htm-7)
* Never refer to someone as an "Indian", unless they happen to consider themselves so.
* Men greet women, and women greet women, touching right cheek to right cheek and making a kissing sound. Not doing so is considered impolite.
* When invited, it is consider impolite not to bring a present. (If not asked, never bring food; a more appropriate gift would be flowers, wine, chocolates or a small toy for the host's child.) The same is true when you are (even for a short time) meeting someone at their home and they offer snacks or something to drink. It is often polite to decline the first time, but not accepting later would be consider impolite.
* Dance: (see Dominican Republic) Ecuadorian styles are more based on Andean and Colombian.
* There is a strong sense of regionalism in Ecuadorian society. Many Ecuadorians identify themselves first with their home region (specially if they are from the coast or the highland), then their nationality.
* While a few object to the title "American" in reference to citizens of the United States, most have no problem with this.
* Politics are a controversial subject in the country. One should avoid talking about religion, politics, money or illness at dinner with (not so close) friends and strangers.
* To blow one's nose in public, while eating or in a room is considered vulgar and one should try to avoid it. The same rule applies in Venezuela.
* Ecuadorian society, like in most South American countries, is very conservative and foreigners (e.g. foreign exchange students, in-laws, but not necessarily tourists) should observe this and try to behave like their peers.
* As in most South American countries, unmarried childless (young) women should always be referred to as "señorita" and not "señora", otherwhise you could offend them. If unsure, it's better to say "señorita". If married, she will feel herself flattered and will immediately correct it. In addition, asking women about their age is considered rude.
* Women expect doors to be opened for them by males, be helped with luggage, etc. These actions are not construed as flirtatious.
* When dealing with someone with an academic degree in a formal (e.g. at work) situation, it is usual to mention it. (Ingeniero/a, Licenciado/a, Doctor/a, Abogado/a, Economista, Contador/a, Arquitecto/a) If used outside a formal situation (e.g. between friends), the titles might sound sarcastic.
* People's hygiene habits are very important, especially in the tropical climate of Guayaquil or other tropical cities in the country. People are expected to take one or more baths or showers daily. Body odor, unshaven legs and underarms in women, ugly or dirty bare feet, or wrinkled clothing and dirty shoes are considered disgusting. Many men wear cologne and have a comb with them. Women usually wear high heels. Never use sport (running) shoes at a formal restaurant, work or going out with friends at night.

### Haiti

* Although tied more closely to France than Spain or Portugal, the etiquette regarding [Haiti](http://en.wikipedia.org/wiki/Haiti) is generally similar to other Latin American countries.
* Haitians often signify particular people through appearances or characteristics. Calling someone "white man" (blan) and "the dark skinned one" (neg) are often mere terms of acknowledgement with no racist overtones.
* Entering a household and not greeting the elders or owners of the household is regarded as highly offensive.
* Being overly generous can be interpreted as offensive as to them it may seem as if you pity them.
* Eating is considered a social event and so withdrawing from the center of activities during meals is considered slightly offensive.
* Avoid discussing Dominican life to Haitians as well as the corruption within government, as these are sensitive subjects (especially if you do not know about the subject).
* The infamous [Haitian Creole](http://en.wikipedia.org/wiki/Haitian_Creole) phrase "LangetMaman" is highly offensive, insulting one's mother. Uttering this to someone will almost certainly provoke conflict.
* Haitians use very good manners and take things seriously.
* Haitians expect to haggle when making a purchase.
* Men shake hands on meeting and departing. Men and women kiss on the cheek when greeting. Women kiss each other on the cheek. Friends, family and close acquaintances usually share a light kiss on the cheek.
* Punctuality is not highly valued and being late is usually not considered rude.
* People of the same gender holding hands is an ordinary display of friendship though women and men seldom show public affection toward the opposite sex but are affectionate in private.
* Because almost all Haitians are descended from African slaves, much African etiquette also applies to Haiti.

### Mexico

* In many situations, punctuality is less important than it is for people elsewhere. Showing up exactly on schedule for a party or gathering is undesirable. However, punctuality is expected for business matters.
* The courtesy titles "Señora" and "Señorita" (Mrs. and Miss, respectively) are taken colloquially as "Married Woman" and "Virgin Woman". This follows[Catholic](http://en.wikipedia.org/wiki/Roman_Catholic_Church) prohibitions against intercourse outside of marriage. Hence, it is more polite to address even an elderly woman as "Señorita" if her marital status is unknown. To do otherwise impugns her character.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
* Some Mexicans are religious. It is a predominantly Catholic country. Church tours in the country are very solemn. While non-Catholic churches are present, be advised to witness some Catholic practices (the "trinity cross" hand gesture/prayer salute) in tours.
* Positioning yourself so your back is not facing another person is customary in Mexico. If a person's back is facing another person, he or she must excuse himself or herself.
* When an invitation to go out is issued (e.g. going to dinner) using the words or the phrase *"I invite you to..."*, it is common that invitees typically assume all the expenses will be paid by the inviter.
* Several kinds of food are eaten with the fingers ([tacos](http://en.wikipedia.org/wiki/Taco), tortas, churros, etc.) Eating them with a fork and knife is viewed as both comical and snobbish. In case of doubt, follow the lead of other diners.
* In some regions of Mexico leaving an empty plate after dining is rude, whereas in some others is rude to leave it with food. Then again, in some regions it is appropriate to accept a second portion, while in others a rejection is expected; always speak clearly about your eating in order to not get misunderstood.
* Before starting to eat it is a common courtesy to say/be wished *"Buenprovecho"* (as in "Bon appetit") when in company of new people. This courtesy is almost not used between long-time friends.
* Going to the bathroom during any meal is not acceptable but even more so in formal situations.
* The least a host can offer a visitor is a glass of water. Several other kinds of drinks can be offered. Offering alcoholic drinks is appropriate if meeting in the evening, or if the visitor is a well-known person to the host.
* Women expect doors to be opened for them by males. This also applies to lighting of [cigarettes](http://en.wikipedia.org/wiki/Cigarette), turning off mobile phones in dates or appointments, and helping them to their seat. None of these actions are construed as [flirtatious](http://en.wikipedia.org/wiki/Flirting) but simply as a [gentlemanly](http://en.wikipedia.org/wiki/Gentleman) courteous gesture.
* Gender specific situations, phrases and behaviors are expected in conservative regions of the country. Many upper-class Mexicans are less chauvinistic and biased towards women in social roles. [Machismo](http://en.wikipedia.org/wiki/Machismo) (male assertiveness/aggressiveness) versus femininity issues are still present in older age Mexicans in conservative regions.
* As in the USA, unless service is atrocious, tips should never be below 10% of the bill total as they are commonly a waiter's main means of income; 15% or more is most appropriate.
* When dealing with someone with an academic degree in a formal situation, it is usual to mention it. For a BA-level, the distinctions are clear (Ingeniero and Licenciado for graduates of Engineering programs or for most other fields, respectively). Afterwards, it's usual to call a Master "maestro" and a Doctor-level student "Doctor". If used outside a formal situation, the titles might sound ironic.
* It is common for men to greet ladies (and vice-versa) by kissing one time on the cheek. It is not so common when introduced to someone for the first time, as this means closeness or relation.
* When someone sneezes, you should say "Salud" (lit. "Health"). This is the equivalent for "bless you" in United States. The person who sneezed should respond with "Gracias" ("Thank you").
* The use of the [Mexican flag](http://en.wikipedia.org/wiki/Flag_of_Mexico) for any other reason than for national holidays (such as [Independence Day](http://en.wikipedia.org/wiki/Mexican_War_of_Independence)) is considered a serious insult and faux pas for Mexicans, as is painting, throwing, making clothing from it, etc., and is also penalized under the law.
* Using Mexican Spanish phrases and interjections like "Chihuahua", "Caramba", "Ándale", "Taco" (Mexican [Taco Bells](http://en.wikipedia.org/wiki/Taco_Bell) advertise Tacos as *Tacostadas* or *Tachitos*) or "bad words" thinking that by doing so you will "blend in" is sometimes seen as mocking and disrespectful coming from tourists.
* Mexican men can speak with [dirty language](http://en.wikipedia.org/wiki/Dirty_language) ([albur](http://en.wikipedia.org/wiki/Albur)) among themselves (be this friends or relatives). But women must avoid this, for it is regarded as vulgar and low class.
* Trying to use Mexican Spanish [double entendre](http://en.wikipedia.org/wiki/Double_entendre) or [albur](http://en.wikipedia.org/wiki/Albur) is not recommended since the connotations of the double talk are usually sexual and may be used against the speaker. If keen on an explanation of the double entendre, it is recommendable to do so in a more private environment.
* Be advised that socioeconomic issues (i.e. [classism](http://en.wikipedia.org/wiki/Classism)) are very strong and prevalent in the country.
* Avoid discussions on politics, national differences between the U.S. and Mexico, and especially racial/ethnic issues. [Mexican-Americans](http://en.wikipedia.org/wiki/Mexican-Americans) in the USA as an ethnic group have experienced discrimination. Mexicans are highly aware of the historical conflict with the United States in this case; likewise, economic disparity, political crises and global diplomatic issues are not discussed without respect and appropriate sympathy. In fact, the Mexican Constitution specifically says that only Mexican citizens are to formally participate in the political arena.

### Nicaragua

* In [Nicaragua](http://en.wikipedia.org/wiki/Nicaragua), exchanges of hospitality are important. Refusing a drink (especially on a hot day) or not praising the host on the quality of the meal is considered rude.[[9]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-1.2C2122.2C.2C00.html-8)
* Exchanging greetings is also very important. Seeing (even at a distance) someone one knows typically prompts approaching them to exchanging handshakes and kisses as appropriate. Waves and verbal salutations do not suffice.[[9]](http://en.wikipedia.org/wiki/Etiquette_in_Latin_America#cite_note-1.2C2122.2C.2C00.html-8)
* Greeting someone with "Hello" is always followed by the appropriate time of day greeting; "Good day", "Good Afternoon", and, "Good Evening."
* When speaking to an older adult, it is respectful to refer to them as "Don" or "Doña." This is a sign of respect.
* Saying goodbye is said in two popular ways "Adios" and "Chau." Although "Chau" is derived from Italian language, it is used in Nicaragua and was brought by the influential quantity of Italian immigrants.
* Nicaraguans are very expressive and passionate. Hand movements are usually accompanied when speaking.
* Salsa, merengue, bachata, and tango may seem like "sexy dancing", but there are unspoken rules. It is rude for a man to dance too close to a woman who is not his wife or girlfriend, even if others seem to be doing it.

### Puerto Rico

* When others are about to eat, it is very considerate to say "buenprovecho" (enjoy your meal).
* It is very common for members of the opposite sex or women to women to greet each other with a kiss on the cheek. This is never done between men however.
* Going out at night is an important time to dress your best and trendy. Simple jeans and T-shirt, khaki shorts, flip-flops, etc., are considered tacky.
* In Puerto Rico the older generation is looked upon for knowledgable insight and highly respected. In family or social gatherings the children and younger adults will give seats to elders first.
* Remember that [Puerto Rico](http://en.wikipedia.org/wiki/Puerto_Rico) is an unincorporated territory or colony of the United States and as such, most rules of the United States are applicable here as well.
* Among Puerto Ricans, conversations are usually very interactive and full of interruptions. If you're talking to someone else and a third person joins you, you are expected to stop what you're saying and acknowledge the newcomer.
* Watching [television](http://en.wikipedia.org/wiki/Television) is a very social activity. Asking for quiet is typically considered both unreasonable and impolite.
* Refusing a second or third helping at a host's home is considered rude. To do so because of any diet is even ruder.
* [Salsa](http://en.wikipedia.org/wiki/Salsa_(dance)), [merengue](http://en.wikipedia.org/wiki/Merengue_(dance)) and even [reggaetón](http://en.wikipedia.org/wiki/Reggaet%C3%B3n) may seem like "sexy dancing", but there are unspoken rules. It is rude for a man to dance too close to a woman who is not his wife or girlfriend, even if others seem to be doing it.
* It is considered vulgar and ostentatious to open gifts in public. Gifts are never opened in front of a group of people to avoid people comparing the merits of different gifts.
* Do not praise anything you do not want to receive as a gift. In rural areas in particular, to give away objects something a visitor likes is considered polite and a way to show detachment from material objects.
* Women in Puerto Rico are very independent and many of them dislike to feel patronized or bound to traditional roles. While talking to a woman in informal situations avoid calling them "señorita" (miss) or "señora" (Mrs), as they could interpret those titles as 'inexperienced'/'ignorant' or 'old'.
* Political issues, and racial or socioeconomic distinctions can be touchy subjects in Puerto Rico. Questions about such matters are best asked in private. In public, they are seen as a sign of immaturity.

### Peru

* Waving at a stranger is awkward and should be avoided.
* Using your index finger to motion a person to approach you, as practiced in the United States and other places, is considered rude. A more polite way to beckon someone is to place the palm down and gently sweep your fingers toward you.
* In a gathering, you must greet each and everyone, especially the eldest.
* It is very common to greet with a kiss (From men to women and women to both men and women). Nevertheless, two men don't greet with kiss, since it's frowned upon (Peruvians are very uptight). Two male relatives can kiss in the cheek (normally father-son and grandfather-grandson).
* In churches and monasteries, err on the side of discretion (low-rise pants, midriff shirts, peekaboo thongs, and anything else that reveals a lot of skin is not usually acceptable).
* Discussion of drugs (and coca-plant cultivation) and religion should be handled with great tact.
* In a country in which nearly half the population is Amerindian, expressing respect for native peoples is important. Try to refer to them not as *indios*, which is a derogatory term, but as*indígenas*.
* Peruvians shake hands frequently and tirelessly, and although kissing on the cheek is a common greeting for acquaintances (and people you just met), it is not practiced among strangers (as it is in Spain, for example). Amerindian populations are more conservative and even shy. They don't kiss to greet one another, nor do they shake hands as frequently as other Peruvians; if they do, it is a light brush of the hand rather than a firm grip. Many Indians from small villages are reluctant to look a stranger in the eye.
* Photographing military, police, or airport installations is strictly forbidden. Many churches, convents, and museums also do not allow photography or video.
* Be sure not talk too much or in depth about the SenderoLuminoso ("Shining Path", a guerrilla movement).
* Peru, like most of South America, has a problematic history with politics. It is advised not to bring up political issues casually.

### Uruguay

Out of all of Latin America, [Uruguay](http://en.wikipedia.org/wiki/Uruguay) is the least religious, about 40% of the population is secular or irreligious and 60% is in some religion (primarily [Roman Catholic](http://en.wikipedia.org/wiki/Roman_Catholic)). Uruguay has a secular tradition evolved in the country during the late 19th and early 20th century. Official holidays like [Christmas](http://en.wikipedia.org/wiki/Christmas) and [Easter](http://en.wikipedia.org/wiki/Easter) are referenced as "family days" and "gathering week".

Uruguayans have a comparable standard of living to that of [Anglo America](http://en.wikipedia.org/wiki/Anglo_America), [Western Europe](http://en.wikipedia.org/wiki/Western_Europe) and [Australia](http://en.wikipedia.org/wiki/Australia), although their customs and etiquette are closely linked with its geographical neighbor[Argentina](http://en.wikipedia.org/wiki/Argentina).

Their culture is conservative but have a history of experimental socialist policies like universal health care, retirement benefits and a developed social security system for unemployed and low-income people.

### Venezuela

* In [Venezuela](http://en.wikipedia.org/wiki/Venezuela), it is often considered rude to point at a person or even an object with the index finger. People typically point with the whole hand or with a movement of the head and a puckering of the lips towards that which is being indicated.
* In many situations, punctuality is less important than it is for people elsewhere. Showing up exactly on schedule for a party or gathering is undesirable. However, punctuality is expected for business matters.
* People tend to stand very close together when carrying on a conversation. Venezuelans often touch each other’s arms or shoulders during it.
* Coffee or a cold drink is typically offered to guests. It is often polite to decline.
* Street directions are expected to be given in a very detailed manner, very often describing trees and the color of buildings nearby. Omitting an obvious landmark such as a mango tree or a bright red wall is considered careless.
* When a male is introduced to a female, it's expected for the male to make the motion and kiss the female once on the cheek along with a handshake. The handshake should start gently and match to the female's grip.
* When visiting someone's home, remember to bring along something for the house. For example, a small decorative piece if you are familiar with the decorative style, a dessert, or a bottle of the man of the house's favorite alcoholic beverage. For an informal lunch visit, it is common to bring fresh bread from one of the numerous bakeries, desserts, soda, wine, or beer. For breakfast, white cheese or shredded beef for the arepas are always welcome. In any case, it is always rude to show up empty-handed.
* Phrases like "in America" or "I'm from America" when referring to the United States is confusing to Latin American people as America is a continent, not just the United States. Therefore, all people born in the American continent are Americans. People from the United States of America are referred to by their nationality, "estadounidense".
* For business or informal matters, it is good practice to follow up morning appointments with an invitation to lunch.
* Unlike lunch, dinner is for socializing, not for business.
* When dining, wait until everyone is served before beginning to eat.
* Before starting to eat, saying "Buenprovecho" (lit. "I hope the food is good for you") is expected to wish the others at the table a good meal. The others will say "gracias" and repeat the phrase "buenprovecho" so everybody at the table has a good meal.
* Avoid making noises with your cutlery on the plate. Do not bite on your fork or spoon.
* Meals are to be enjoyed with conversations, as long as there are not mouths showing food in them. Swallow first, talk later, or cover your mouth while with food in it.
* To indicate you have finished eating, place your cutlery in parallel and diagonally across your plate.
* Expect to stay for a couple more hours more after dinner, leaving right away might be perceived as that you were there only for a free meal. Coffee and liquor, as digestive aids, will be offered.
* To blow one's nose in public, while eating or in a room is considered vulgar and disgusting, and one should try to avoid it. The restroom is the appropriate place to do it.
* When entering a room with other people, it is a friendly and informal gesture to say just "Buenas" instead of the full "buenosdias" (good morning) or "buenastardes" (good afternoon). However it is always appropriate to say the complete "buenosdías" and "buenastardes/noches" in formal situations.
* Shorts and other forms of beachwear are appropriate only in those environments.
* When someone sneezes, you should say "Salud" (lit. "Health"). The person who sneezed should respond with "Gracias" ("Thank you").

# Etiquette in the Middle East

Many matters of etiquette in the Middle East are connected to [Islam](http://en.wikipedia.org/wiki/Islam) as it is written in the [Qur'an](http://en.wikipedia.org/wiki/Qur%27an) and how it has been traditionally understood and practiced throughout the centuries. Prescribed Islamic [etiquette](http://en.wikipedia.org/wiki/Etiquette) is referred to as [Adab](http://en.wikipedia.org/wiki/Adab_(behavior)), and described as "refinement, good manners, morals, ethics, decorum, decency, humaneness and righteousness".[[1]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-0)

As such, many points discussed in this article are applicable in other regions of the [Islamic world](http://en.wikipedia.org/wiki/Islamic_world). This holds especially true in [Muslim majority](http://en.wikipedia.org/wiki/Majority_Muslim_countries)countries outside Middle East.

The Middle East is home to many people who follow faiths besides Islam. Most notable among them are the churches of [Eastern Orthodox Christianity](http://en.wikipedia.org/wiki/Eastern_Orthodox_Church),[Copts](http://en.wikipedia.org/wiki/Copt) and other adherents of [Oriental Orthodoxy](http://en.wikipedia.org/wiki/Oriental_Orthodoxy), [Maronites](http://en.wikipedia.org/wiki/Maronites), [Melkites](http://en.wikipedia.org/wiki/Melkite_Greek_Catholic_Church) and other Catholics of the Eastern Rites as well as the Roman Rite, [Zoroastrians](http://en.wikipedia.org/wiki/Zoroastrians),[Bahá'ís](http://en.wikipedia.org/wiki/Bah%C3%A1%27%C3%AD_Faith), and various [Jewish denominations](http://en.wikipedia.org/wiki/Jewish_religious_movements).

In many cases, however, Muslims and non-Muslims in the Middle East will share characteristics, whether it is the prohibition against [pork](http://en.wikipedia.org/wiki/Pork) ordained by both [Islamic](http://en.wikipedia.org/wiki/Halal) and [Jewish](http://en.wikipedia.org/wiki/Kashrut) dietary restrictions, a preference for the beverage widely known elsewhere as "[Turkish coffee](http://en.wikipedia.org/wiki/Turkish_coffee)", or knowledge of how to conduct business in a crowded [souk](http://en.wikipedia.org/wiki/Souk) without being cheated. As coexistence, rather than conflict, has been the norm between people in the Middle East throughout much of history, it is a place where people with different beliefs often share the same traditions.

## Points of etiquette

Although the Middle East is a large expanse of geography with a variety of customs, noting the following points of etiquette can be useful when dealing with people around the world who have been raised according to the traditions of the Middle East or, in some cases, Muslim societies elsewhere.

* Conducting business effectively in a souk or [bazaar](http://en.wikipedia.org/wiki/Bazaar) requires an understanding of how to [haggle](http://en.wikipedia.org/wiki/Haggle) like the locals. This is an art requiring participants to be appropriately aggressive, keen to how much should be offered at a given point in a transaction, etc.
* The [modesty](http://en.wikipedia.org/wiki/Modesty) of one's personal attire is of great concern to many in the Middle East, although the parameters of this modesty vary. In [Saudi Arabia](http://en.wikipedia.org/wiki/Saudi_Arabia), for example, many families expect all female members to wear a [hijab](http://en.wikipedia.org/wiki/Hijab) while even men and women visiting from other cultures should wear very non-revealing clothes to avoid harsh confrontation. In another example, males and females in shorts, skimpy t-shirts or other "immodest" clothes might find themselves evicted from a variety of places, especially holy sites (be they tended by Muslims or Jews). Get specific guidelines from locals when possible.
* Regarding head attire specifically, the etiquette at many Muslim holy sites requires that a [headscarf](http://en.wikipedia.org/wiki/Headscarf) or some other modest head covering be worn. For women this might be a [hijab](http://en.wikipedia.org/wiki/Hijab) and for men it might be a [taqiyah (cap)](http://en.wikipedia.org/wiki/Taqiyah_(cap)), [turban](http://en.wikipedia.org/wiki/Turban), or [keffiyeh](http://en.wikipedia.org/wiki/Keffiyeh). A [kippah](http://en.wikipedia.org/wiki/Kippah) or other head covering is expected for men in[synagogues](http://en.wikipedia.org/wiki/Synagogue) and other places where Jews pray. Orthodox Christian sites might require the removal of hats by men but will expect women to cover their hair with a [kerchief](http://en.wikipedia.org/wiki/Kerchief) or [veil](http://en.wikipedia.org/wiki/Veil).
* Among Muslims, the left hand is reserved for bodily hygiene and considered unclean. Thus, the right hand should be used for eating. Shaking hands or handing over an item with one's left hand is considered an insult.[[2]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-airman.2F0406-1)
* Public displays of affection between people of the opposite gender, including between married people, are frowned upon everywhere more conservative values hold sway. Public displays of affection include activities as minor as hand-holding.[[3]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-2)
* In many cases, people of the same gender holding hands while walking is considered an ordinary display of friendship without romantic connotations.[[4]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-1.2C2122.2C.2C00-3)
* In a related point, many people in the Middle East claim a more modest amount of [personal space](http://en.wikipedia.org/wiki/Personal_space) than that which is usual elsewhere. Accordingly, it can seem rude for an individual to step away when another individual is stepping closer.[[5]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-AR2006090701067-4)
* Special respect is paid to older people in many circumstances. This can include standing when older people enter a room, always greeting older people before others present (even if they are better known to you), standing when speaking to one’s elders and serving older people first at a meal table. [[2]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-airman.2F0406-1)
* Many people throughout the Middle East, especially Persians and Arabs, take great pride in shows of [hospitality](http://en.wikipedia.org/wiki/Hospitality), never failing to at least serve [chai](http://en.wikipedia.org/wiki/Chai),[coffee](http://en.wikipedia.org/wiki/Coffee) and a snack such as [figs](http://en.wikipedia.org/wiki/Figs) but preferring to present guests with a lavish choice of expensive delicacies in abundance. To refuse such hospitality can cause offense.
* In some areas in the Middle East, it is common for people to take their food from a common plate in the center of the table. Rather than employing[forks](http://en.wikipedia.org/wiki/Fork) or [spoons](http://en.wikipedia.org/wiki/Spoon), people may scoop up [hummus](http://en.wikipedia.org/wiki/Hummus) and other oodstuff with [pita bread](http://en.wikipedia.org/wiki/Pita).
* In many Middle Eastern countries, grouping the thumb and fingers together, and shaking it up and down, fingers pointing upwards, indicates "wait".
* In Iran, the "[thumbs up](http://en.wikipedia.org/wiki/Thumbs_signal)" gesture is considered an offensive insult[[2]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-airman.2F0406-1)
* Displaying the sole of one's foot or touching somebody with one's shoe is often considered rude. This includes sitting with one's feet or foot elevated. In some circumstances, shoes should be removed before entering a living room.[[6]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-5)
* Many in the Middle East do not separate professional and personal life. Doing business revolves much more around personal relationships, family ties, trust and honor. There is a tendency to prioritize personal matters above all else. It is therefore crucial that business relationships are built on mutual friendship and trust.[[7]](http://en.wikipedia.org/wiki/Etiquette_in_the_Middle_East#cite_note-kwint-6)
* Responding to an anger or seriousness with light laughter or a smile is common. This must not be seen as an indication that the other person is not taking you or the situation seriously.
* A common custom in many Middle Eastern countries is 'tarof' (or [taarof](http://en.wikipedia.org/wiki/Taarof)) which can be translated as 'offering'. It is common for a person not to accept an offering (food, beverages etc.) the first or possibly second time, instead taking up the offer the third time. This traditionally implies dignity, self-respect and respect for the host. In addition, if there is only one item of food left, the host must offer, or taarof it, to everyone, regardless of whether or not he or she wants it. Finally, it is considered rude if a person gets food for himself or herself without bringing some for the guests.
* [](#_top)Positioning yourself so your back is not facing another person is customary in [Iran](http://en.wikipedia.org/wiki/Iran) and [Iraq](http://en.wikipedia.org/wiki/Iraq). If a person's back is facing another person, he or she must excuse himself or herself.

# law3

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# I Legal Systems of the World

# Common law

**Common law** (also known as [case law](http://en.wikipedia.org/wiki/Case_law) or [precedent](http://en.wikipedia.org/wiki/Precedent)) is [law](http://en.wikipedia.org/wiki/Law) developed by [judges](http://en.wikipedia.org/wiki/Judge) through [decisions](http://en.wikipedia.org/wiki/Legal_opinion) of [courts](http://en.wikipedia.org/wiki/Courts) and similar tribunals rather than through [legislative statutes](http://en.wikipedia.org/wiki/Statute_law) or [executive branch action](http://en.wikipedia.org/wiki/Executive_(government)).[[1]](http://en.wikipedia.org/wiki/Common_law#cite_note-0) A "common law system" is a [legal system](http://en.wikipedia.org/wiki/Legal_systems_of_the_world) that gives great precedential weight to common law, [[2]](http://en.wikipedia.org/wiki/Common_law#cite_note-1) on the principle that it is unfair to treat similar facts differently on different occasions.[[3]](http://en.wikipedia.org/wiki/Common_law#cite_note-2) The body of [precedent](http://en.wikipedia.org/wiki/Precedent) is called "common law" and it binds future decisions. In cases where the parties disagree on what the law is, a common law court looks to past [precedential](http://en.wikipedia.org/wiki/Precedent) decisions of relevant courts. If a similar dispute has been resolved in the past, the court is [bound](http://en.wikipedia.org/wiki/Binding_precedent) to follow the reasoning used in the prior decision (this principle is known as [stare decisis](http://en.wikipedia.org/wiki/Stare_decisis)). If, however, the court finds that the current dispute is fundamentally distinct from all previous cases (called a "[matter of first impression](http://en.wikipedia.org/wiki/Case_of_first_impression)"), judges have the authority and duty to make law by creating [precedent](http://en.wikipedia.org/wiki/Precedent).[[4]](http://en.wikipedia.org/wiki/Common_law#cite_note-3) Thereafter, the new decision becomes precedent, and will bind future courts.

In practice, common law systems are considerably more complicated than the simplified system described above. The decisions of a court are binding only in a particular [jurisdiction](http://en.wikipedia.org/wiki/Jurisdiction), and even within a given jurisdiction, some courts have more power than others. For example, in most jurisdictions, decisions by [appellate courts](http://en.wikipedia.org/wiki/Appellate_courts) are binding on lower courts in the same jurisdiction and on future decisions of the same appellate court, but decisions of lower courts are only non-binding persuasive authority. Interactions between common law, [constitutional law](http://en.wikipedia.org/wiki/Constitutional_law), [statutory law](http://en.wikipedia.org/wiki/Statutory_law) and [regulatory law](http://en.wikipedia.org/wiki/Regulatory_law) also give rise to considerable complexity. However, [stare decisis](http://en.wikipedia.org/wiki/Stare_decisis), the principle that similar cases should be decided according to consistent principled rules so that they will reach similar results, lies at the heart of all common law systems.

A third of the world's population (approximately 2.3 billion people) live in common law jurisdictions, particularly in [England](http://en.wikipedia.org/wiki/Kingdom_of_England) where it originated in the Middle Ages, and countries that trace their legal heritage to England as former colonies of the [British Empire](http://en.wikipedia.org/wiki/British_Empire), including [India](http://en.wikipedia.org/wiki/India),the [United States](http://en.wikipedia.org/wiki/United_States), [Pakistan](http://en.wikipedia.org/wiki/Pakistan), [Nigeria](http://en.wikipedia.org/wiki/Nigeria), [Bangladesh](http://en.wikipedia.org/wiki/Bangladesh), [Canada](http://en.wikipedia.org/wiki/Canada), [Malaysia](http://en.wikipedia.org/wiki/Malaysia), [Ghana](http://en.wikipedia.org/wiki/Ghana), [Australia](http://en.wikipedia.org/wiki/Australia), [Sri Lanka](http://en.wikipedia.org/wiki/Sri_Lanka), [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong), [Singapore](http://en.wikipedia.org/wiki/Singapore), [Ireland](http://en.wikipedia.org/wiki/Law_of_the_Republic_of_Ireland), [New Zealand](http://en.wikipedia.org/wiki/New_Zealand), [Jamaica](http://en.wikipedia.org/wiki/Jamaica), [Trinidad & Tobago](http://en.wikipedia.org/wiki/Trinidad_%26_Tobago), [Cyprus](http://en.wikipedia.org/wiki/Cyprus), [Barbados](http://en.wikipedia.org/wiki/Barbados), [South Africa](http://en.wikipedia.org/wiki/South_Africa), [Zimbabwe](http://en.wikipedia.org/wiki/Zimbabwe), [Cameroon](http://en.wikipedia.org/wiki/Cameroon), [Namibia](http://en.wikipedia.org/wiki/Namibia), [Botswana](http://en.wikipedia.org/wiki/Botswana), [Guyana](http://en.wikipedia.org/wiki/Guyana) and [Israel](http://en.wikipedia.org/wiki/Israel) use common law systems, or mixed systems with civil law.

Civil law as branch of common law

**Civil law**, as opposed to [criminal law](http://en.wikipedia.org/wiki/Criminal_law), is the branch of [law](http://en.wikipedia.org/wiki/Law) dealing with disputes between [individuals](http://en.wikipedia.org/wiki/Individuals) or [organizations](http://en.wikipedia.org/wiki/Organizations), in which [compensation](http://en.wikipedia.org/wiki/Damages) may be awarded to the victim. For instance, if a car crash victim claims damages against the driver for loss or injury sustained in an accident, this will be a civil law case.[[1]](http://en.wikipedia.org/wiki/Civil_law_(common_law)#cite_note-bbc-0)

The law relating to [civil wrongs](http://en.wikipedia.org/wiki/Civil_wrong) and [quasi-contract](http://en.wikipedia.org/wiki/Quasi-contract) is part of the civil law.[[2]](http://en.wikipedia.org/wiki/Civil_law_(common_law)#cite_note-1)

In the [common law](http://en.wikipedia.org/wiki/Common_law), civil law is the area of laws and justice that affect the legal status of individuals. Civil law, in this sense, is usually referred to in comparison to [criminal law](http://en.wikipedia.org/wiki/Criminal_law), which is that body of law involving the state against individuals (including incorporated organizations) where the state relies on the power given it by [statutory law](http://en.wikipedia.org/wiki/Statute). Civil law may also be compared to [military law](http://en.wikipedia.org/wiki/Military_law), [administrative law](http://en.wikipedia.org/wiki/Administrative_law) and [constitutional law](http://en.wikipedia.org/wiki/Constitutional_law) (the laws governing the political and law making process), and [international law](http://en.wikipedia.org/wiki/International_law). Where there are legal options for causes of action by individuals within any of these areas of law, it is thereby civil law.

Civil law courts provide a forum for deciding disputes involving [torts](http://en.wikipedia.org/wiki/Torts) (such as accidents, negligence, and libel), [contract](http://en.wikipedia.org/wiki/Contract) disputes, the probate of [wills](http://en.wikipedia.org/wiki/Will_(law)), [trusts](http://en.wikipedia.org/wiki/Trusts), [property disputes](http://en.wikipedia.org/wiki/Property_law), [administrative law](http://en.wikipedia.org/wiki/Administrative_law), [commercial law](http://en.wikipedia.org/wiki/Commercial_law), and any other private matters that involve private parties and organizations including government departments. An action by an individual (or legal equivalent) against the [attorney general](http://en.wikipedia.org/wiki/Attorney_general) is a civil matter, but when the state, being represented by the prosecutor for the attorney general, or some other agent for the state, takes action against an individual (or legal equivalent including a government department), this is [public law](http://en.wikipedia.org/wiki/Public_law), not civil law.

The objectives of civil law are different from other types of law. In civil law there is the attempt to right a wrong, honor an agreement, or settle a dispute. If there is a victim, they get compensation, and the person who is the cause of the wrong pays, this being a civilized form of, or legal alternative to, revenge. If it is an equity matter, there is often a pie for division and it gets allocated by a process of civil law, possibly invoking the [doctrines of equity](http://en.wikipedia.org/wiki/Doctrines_of_equity). In public law the objective is usually deterrence, and retribution.

An action in criminal law does not necessarily preclude an action in civil law in common law countries, and may provide a mechanism for compensation to the victims of crime. Such a situation occurred when [O.J. Simpson](http://en.wikipedia.org/wiki/O.J._Simpson) was ordered to pay damages for [wrongful death](http://en.wikipedia.org/wiki/Wrongful_death) after being acquitted of the criminal charge of [murder](http://en.wikipedia.org/wiki/Murder).

Civil law in common law countries usually refers to both [common law](http://en.wikipedia.org/wiki/Common_law) and the law of [equity](http://en.wikipedia.org/wiki/Equity_(law)), which while now merged in administration, have different traditions, and have historically operated to different doctrines, although this dualism is increasingly being set aside so there is one coherent body of law rationalized around common principles of law.

Difference from criminal law

In many countries such as the [USA](http://en.wikipedia.org/wiki/USA) and [UK](http://en.wikipedia.org/wiki/UK), [criminal law](http://en.wikipedia.org/wiki/Criminal_law) has to prove that a party is guilty [**beyond a reasonable doubt**](http://en.wikipedia.org/wiki/Beyond_a_reasonable_doubt) when a case is sent to court. Civil law operates differently, as the UK standard is only to prove guilt on the basis of a [balance of probability](http://en.wikipedia.org/wiki/Legal_burden_of_proof#Preponderance_of_the_evidence). In civil law cases, the "[burden of proof](http://en.wikipedia.org/wiki/Legal_burden_of_proof)" requires the plaintiff to convince the trier of fact (whether judge or jury) of the plaintiff's entitlement to the relief sought. This means that the plaintiff must prove each element of the claim, or cause of action, in order to recover.

Religious law

**Religious**[**law**](http://en.wikipedia.org/wiki/Law) refers to [ethical](http://en.wikipedia.org/wiki/Ethical_code) and [moral codes](http://en.wikipedia.org/wiki/Morality#Moral_codes) taught by [religious traditions](http://en.wikipedia.org/wiki/Religious_tradition). Examples include customary [*halakha*](http://en.wikipedia.org/wiki/Halakha) ([Jewish](http://en.wikipedia.org/wiki/Judaism) law), [Hindu law](http://en.wikipedia.org/wiki/Hindu_law), [*sharia*](http://en.wikipedia.org/wiki/Sharia) ([Islamic](http://en.wikipedia.org/wiki/Islam) law) and [Canon law](http://en.wikipedia.org/wiki/Canon_law) ([Christian](http://en.wikipedia.org/wiki/Christian) law).[[1]](http://en.wikipedia.org/wiki/Religious_law#cite_note-0)

The two most prominent systems, Canon law and Shari'a, differ from other religious laws in that Canon law is the [codification](http://en.wikipedia.org/wiki/Codification_(law)) of [Catholic](http://en.wikipedia.org/wiki/Roman_Catholic_Church), [Anglican](http://en.wikipedia.org/wiki/Anglicanism) and [Orthodox](http://en.wikipedia.org/wiki/Eastern_Christianity) law as in [civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)), while Shari'a derives many of its laws from juristic [precedent](http://en.wikipedia.org/wiki/Precedent) and reasoning by [analogy](http://en.wikipedia.org/wiki/Qiyas) (like in a [common law](http://en.wikipedia.org/wiki/Common_law) tradition).

A [state religion](http://en.wikipedia.org/wiki/State_religion) (or [established church](http://en.wikipedia.org/wiki/Established_church)) is a religious body officially endorsed by the [state](http://en.wikipedia.org/wiki/State_(polity)). A [theocracy](http://en.wikipedia.org/wiki/Theocracy) is a [form of government](http://en.wikipedia.org/wiki/Form_of_government) in which a [God](http://en.wikipedia.org/wiki/God) or a [deity](http://en.wikipedia.org/wiki/Deity) is recognized as the supreme civil ruler. The opposite are [secular states](http://en.wikipedia.org/wiki/Secular_state), in which there is a [separation of church and state](http://en.wikipedia.org/wiki/Separation_of_church_and_state).

International law

**International law** is the set of rules generally regarded and accepted as binding in relations between states and nations.[[1]](http://en.wikipedia.org/wiki/International_law#cite_note-0) It serves as the indispensable framework for the practice of stable and organized international relations.[[2]](http://en.wikipedia.org/wiki/International_law#cite_note-1) International law differs from national [legal systems](http://en.wikipedia.org/wiki/Legal_system) in that it only concerns nations rather than private citizens. National law may become international law when [treaties](http://en.wikipedia.org/wiki/Treaties) delegate national jurisdiction to [supranational](http://en.wikipedia.org/wiki/Supranational) tribunals such as the [European Court of Human Rights](http://en.wikipedia.org/wiki/European_Court_of_Human_Rights) or the [International Criminal Court](http://en.wikipedia.org/wiki/International_Criminal_Court). Treaties such as the [Geneva Conventions](http://en.wikipedia.org/wiki/Geneva_Conventions) may require national law to conform.

International law is consent based governance. This means that a state member of the international community is not obliged to abide by international law unless it has expressly consented to a particular course of conduct.[[3]](http://en.wikipedia.org/wiki/International_law#cite_note-2) This is an issue of [state sovereignty](http://en.wikipedia.org/wiki/State_sovereignty).

The term "international law" can refer to three distinct legal disciplines:

* [Public international law](http://en.wikipedia.org/wiki/Public_international_law), which governs the relationship between [provinces](http://en.wikipedia.org/wiki/Province) and international entities. It includes these legal fields: [treaty law](http://en.wikipedia.org/wiki/Treaty_law), [law of sea](http://en.wikipedia.org/wiki/Law_of_sea), [international criminal law](http://en.wikipedia.org/wiki/International_criminal_law), the [laws of war](http://en.wikipedia.org/wiki/Laws_of_war) or [international humanitarian law](http://en.wikipedia.org/wiki/International_humanitarian_law) and [international human rights law](http://en.wikipedia.org/wiki/International_human_rights_law).
* [Private international law](http://en.wikipedia.org/wiki/Private_international_law), or [conflict of laws](http://en.wikipedia.org/wiki/Conflict_of_laws), which addresses the questions of (1) which jurisdiction may hear a case, and (2) the law concerning which jurisdiction applies to the issues in the case.
* [Supranational law](http://en.wikipedia.org/wiki/Supranational_law) or the law of [supranational](http://en.wikipedia.org/wiki/Supranational) organizations, which concerns regional agreements where the laws of nation states may be held inapplicable when conflicting with a supranational legal system when that nation has a treaty obligation to a supranational [collective](http://en.wikipedia.org/wiki/Collective).

The two traditional branches of the field are:

* [*jus gentium*](http://en.wikipedia.org/wiki/Jus_gentium) — law of nations
* [*jus inter gentes*](http://en.wikipedia.org/wiki/Jus_inter_gentes) — agreements between nations

Public international law

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[magnify-clip](http://en.wikipedia.org/wiki/File:Unpicture.jpg)

The [United Nations](http://en.wikipedia.org/wiki/United_Nations) is responsible for much of the current framework of [international law](http://en.wikipedia.org/wiki/International_law)

**Public international law** concerns the structure and conduct of [sovereign states](http://en.wikipedia.org/wiki/Sovereign_state); analogous entities, such as the [Holy See](http://en.wikipedia.org/wiki/Legal_status_of_the_Holy_See); and [intergovernmental organizations](http://en.wikipedia.org/wiki/Intergovernmental_organizations). To a lesser degree, international law also may affect [multinational corporations](http://en.wikipedia.org/wiki/Multinational_corporation) and [individuals](http://en.wikipedia.org/wiki/Individual), an impact increasingly evolving beyond domestic legal interpretation and enforcement. Public international law has increased in use and importance vastly over the twentieth century, due to the increase in [global trade](http://en.wikipedia.org/wiki/International_trade), environmental deterioration on a worldwide scale, awareness of [human rights](http://en.wikipedia.org/wiki/Human_rights) violations, and rapid and vast increases in international transportation as well as a boom in global communications.

The field of study combines two main branches: the **law of nations** ([*jus gentium*](http://en.wikipedia.org/wiki/Jus_gentium)) and **international agreements and conventions** ([*jus inter gentes*](http://en.wikipedia.org/wiki/Jus_inter_gentes)), which have different foundations and should not be confused.

Public international law should not be confused with "[*private international law*](http://en.wikipedia.org/wiki/Private_international_law)", which is concerned with the resolution of [conflict of laws](http://en.wikipedia.org/wiki/Conflict_of_laws). In its most general sense, international law "consists of rules and principles of general application dealing with the conduct of states and of intergovernmental organizations and with their relations [*inter se*](http://en.wikipedia.org/wiki/Inter_se), as well as with some of their relations with persons, whether natural or juridical."[[1]](http://en.wikipedia.org/wiki/Public_international_law#cite_note-0)

Conflict of laws

**Conflict of laws** (or **private international law**) is a set of procedural rules that determines which legal system and which [jurisdictions](http://en.wikipedia.org/wiki/Jurisdiction_(area)) applies to a given dispute. The rules typically apply when a legal dispute has a "foreign" element such as a contract agreed to by parties located in different countries, although the "foreign" element also exists in multi-jurisdictional countries such as the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), the [United States](http://en.wikipedia.org/wiki/United_States), [Australia](http://en.wikipedia.org/wiki/Australia) and [Canada](http://en.wikipedia.org/wiki/Canada).

The term *conflict of laws* itself originates from situations where the ultimate outcome of a legal dispute depended upon which law applied, and the common law courts manner of resolving the conflict between those laws. In [civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)), lawyers and legal scholars refer to conflict of laws as private international law. Private international law has no real connection with [public international law](http://en.wikipedia.org/wiki/Public_international_law), and is instead a feature of local law which varies from country to country.

The three branches of conflict of laws are

* Jurisdiction – whether the forum court has the power to resolve the dispute at hand
* Choice of law – the law which is being applied to resolve the dispute
* Foreign judgments – the ability to recognize and enforce a judgment from an external forum within the jurisdiction of the adjudicating forum

Terminology

Its three different names – *conflict of laws*, *private international law*, and *international private law* – are generally interchangeable, although none of them is wholly accurate or properly descriptive. The term *conflict of laws* is primarily used in jurisdictions of the [Common Law](http://en.wikipedia.org/wiki/Common_Law) legal tradition, such as in the United States, England, Canada, and Australia. *Private international law* (*droit international privé*) is used in France, as well as in Italy, Greece, and the Spanish- and Portuguese-speaking countries. *International private law* (*internationales Privatrecht*) is used in [Germany](http://en.wikipedia.org/wiki/Germany) (as well as [Austria](http://en.wikipedia.org/wiki/Austria), [Lichtenstein](http://en.wikipedia.org/wiki/Leichtenstein) and [Switzerland](http://en.wikipedia.org/wiki/Switzerland)), [Russia](http://en.wikipedia.org/wiki/Russia) and [Scotland](http://en.wikipedia.org/wiki/Scotland).

Within the federal systems where legal conflicts among federal states require resolution, as in the [United States](http://en.wikipedia.org/wiki/United_States) and [Australia](http://en.wikipedia.org/wiki/Australia), the term *conflict of laws* is preferred simply because such cases do not involve an international issue. Hence, *conflict of laws* is a general term to refer to disparities among laws, regardless of whether the relevant legal systems are international or inter-state. The term, however, can be misleading when it refers to [*resolution*](http://en.wikipedia.org/wiki/Resolution_(policy_debate))*of conflicts* between competing systems rather than "conflict" itself. The term *private international law* was coined by American [lawyer](http://en.wikipedia.org/wiki/Lawyer) and Judge [Joseph Story](http://en.wikipedia.org/wiki/Joseph_Story), but was abandoned subsequently by common law scholars and embraced by civil law lawyers.

The status of foreign law

Generally, when the court is to apply a foreign law, it must be proved by foreign law experts. It cannot merely be pleaded, as the court has no expertise in the laws of foreign countries nor in how they might be applied in a foreign court. Such foreign law may be considered no more than [evidence](http://en.wikipedia.org/wiki/Evidence_(law)), rather than law because of the issue of sovereignty. If the local court is actually giving extraterritorial effect to a foreign law, it is less than sovereign and so acting in a way that is potentially unconstitutional. The theoretical responses to this issue are:

* (a) that each court has an [inherent jurisdiction](http://en.wikipedia.org/wiki/Inherent_jurisdiction) to apply the laws of another country where it is necessary to achieving a just outcome; or
* (b) that the local court creates a right in its own laws to match that available under the foreign law. This explanation is sustainable because, even in states which apply a system of binding legal precedents, any precedent emerging from a conflicts case can only apply to future conflicts cases. There will be no [ratio decidendi](http://en.wikipedia.org/wiki/Ratio_decidendi) that binds future litigants in entirely local cases.
* (c) that the national court, when applying a foreign law, does not give an extraterritorial effect but recognizes, through its own "conflict of laws rule", that the situation at hand falls under the scope of application of the foreign rule. In order to understand this argument one must first define the notion of extraterritorial application of a rule. This notion is susceptible to two distinct meanings:

On the one hand, this notion is used to describe the situation where a local court applies a rule other than the *Lex fori* (local law).

On the other hand, it could mean that the rule is being applied to a factual situation that occurred beyond the territory of its state of origin. As an example of this situation, one can think of an American court applying British tort statutes and case law to a [car accident](http://en.wikipedia.org/wiki/Car_accident) that took place in [London](http://en.wikipedia.org/wiki/London) where both the driver and the victim are British citizens but the lawsuit was brought in before the American courts because the driver's insurer is American. One can then argue that since the factual situation is within the British territory, where an American judge applies the English Law, he does not give an extraterritorial application to the foreign rule. In fact, one can also argue that the American judge, had he applied [American Law](http://en.wikipedia.org/wiki/Law_of_the_United_States), would be doing so in an extraterritorial fashion.

Once the [*lex causae*](http://en.wikipedia.org/wiki/Lex_causae) has been selected, it will be respected except when it appears to contravene an overriding mandatory rule of the *lex fori*. Each judge is the guardian of his own principles of *ordre public* (public order) and the parties cannot, by their own act, oust the fundamental principles of the local municipal law which generally underpin areas such as [labour law](http://en.wikipedia.org/wiki/Labour_and_employment_law), insurance, competition regulation, agency rules, embargoes, import-export regulations, and [securities exchange](http://en.wikipedia.org/wiki/Securities_exchange) regulations. Furthermore, the *lex fori* will prevail in cases where an application of the *lex causae* would otherwise result in a fundamentally immoral outcome, or give extraterritorial effect to [confiscatory](http://en.wikipedia.org/wiki/Confiscation) or other territorially limited laws.

In some countries, there is occasional evidence of [parochialism](http://en.wikipedia.org/wiki/Parochialism) when courts have determined that if the foreign law cannot be proved to a "satisfactory standard", then local law may be applied. In [the United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), in the absence of evidence being led, the foreign law is presumed to be the same as the *lex fori*. Similarly, judges might assume in default of express evidence to the contrary that the place where the cause of action arose would provide certain basic protections, e.g. that the foreign court would provide a remedy to someone who was injured due to the negligence of another. Finally, some American courts have held that local law will be applied if the injury occurred in an "uncivilized place that has no law or legal system."[[6]](http://en.wikipedia.org/wiki/Conflict_of_laws#cite_note-5)

If the case has been submitted to [arbitration](http://en.wikipedia.org/wiki/Arbitration) rather than a national court, say because of a forum selection clause, an arbitrator may decide not to apply local mandatory policies in the face of a choice of law by the parties if this would defeat their commercial objectives. However, the arbitral award may be challenged in the country where it was made or where enforcement is sought by one of the parties on the ground that the relevant *ordre public* should have been applied. If the [*lex loci arbitri*](http://en.wikipedia.org/wiki/Lex_loci_arbitri) has been ignored, but there was no real and substantial connection between the place of arbitration and the agreement made by the parties, a court in which enforcement is sought may well accept the tribunal's decision. But if the appeal is to the courts in the state where the arbitration was held, the judge cannot ignore the mandatory provisions of the *lex fori*.

Harmonization

To apply one national legal system as against another may never be an entirely satisfactory approach. The parties' interests may always be better protected by applying a law conceived with international realities in mind. The [Hague Conference on Private International Law](http://en.wikipedia.org/wiki/Hague_Conference_on_Private_International_Law) is a treaty organization that oversees conventions designed to develop a uniform system. The deliberations of the conference have recently been the subject of controversy over the extent of cross-border jurisdiction on [electronic commerce](http://en.wikipedia.org/wiki/Electronic_commerce) and [defamation](http://en.wikipedia.org/wiki/Defamation) issues. There is a general recognition that there is a need for an international law of contracts: for example, many nations have ratified the [*Vienna Convention on the International Sale of Goods*](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods), the [*Rome Convention on the Law Applicable to Contractual Obligations*](http://en.wikipedia.org/wiki/Rome_Convention_(contract)) offers less specialized uniformity, and there is support for the [*UNIDROIT*](http://en.wikipedia.org/wiki/UNIDROIT)*Principles of International Commercial Contracts*, a private restatement, all of which represent continuing efforts to produce international standards as the internet and other technologies encourage ever more interstate commerce. But other branches of the law are less well served and the dominant trend remains the role of the forum law rather than a supranational system for Conflict purposes. Even the EU, which has institutions capable of creating uniform rules with [direct effect](http://en.wikipedia.org/wiki/Direct_effect), has failed to produce a universal system for the common market. Nevertheless, the Treaty of Amsterdam does confer authority on the Community's institutions to legislate by Council Regulation in this area with supranational effect. Article 177 would give the Court of Justice jurisdiction to interpret and apply their principles so, if the political will arises, uniformity may gradually emerge in letter. Whether the domestic courts of the Member States would be consistent in applying those letters is speculative.

Comparative law

**Comparative law** is the study of differences and similarities between the [laws](http://en.wikipedia.org/wiki/Law) of different countries. More specifically, it involves study of the different legal systems in existence in the world, including the [common law](http://en.wikipedia.org/wiki/Common_law), the [civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)), [socialist law](http://en.wikipedia.org/wiki/Socialist_law), [Islamic law](http://en.wikipedia.org/wiki/Sharia), [Hindu law](http://en.wikipedia.org/wiki/Hindu_law), and [Chinese law](http://en.wikipedia.org/wiki/Chinese_law). It includes the description and analysis of foreign legal systems, even where no explicit comparison is undertaken. The importance of comparative law has increased enormously in the present age of internationalism, economic globalisation and democratisation.

Purpose

Comparative law is an academic study of separate legal systems, each one analysed in its constitutive elements; how they differ in the different legal systems, and how their elements combine into a system.

Several disciplines have developed as separate branches of comparative law, including comparative [constitutional law](http://en.wikipedia.org/wiki/Constitutional_law), comparative [administrative law](http://en.wikipedia.org/wiki/Administrative_law), comparative [civil law](http://en.wikipedia.org/wiki/Civil_law_(private_law)) (in the sense of the law of [torts](http://en.wikipedia.org/wiki/Tort), [delicts](http://en.wikipedia.org/wiki/Delict), [contracts](http://en.wikipedia.org/wiki/Contract) and [obligations](http://en.wikipedia.org/wiki/Law_of_obligations)), comparative [commercial law](http://en.wikipedia.org/wiki/Commercial_law) (in the sense of [business organisations](http://en.wikipedia.org/wiki/Companies_law) and trade), and comparative [criminal law](http://en.wikipedia.org/wiki/Criminal_law). Studies of these specific areas may be viewed as micro- or macro-comparative legal analysis, i.e. detailed comparisons of two countries, or broad-ranging studies of several countries. Comparative civil law studies, for instance, show how the law of private relations is organised, interpreted and used in different systems or countries. It appears today the principal purposes of comparative law are:

* to attain a deeper knowledge of the legal systems in effect
* to perfect the legal systems in effect
* possibly, to contribute to a unification of legal systems, of a smaller or larger scale (cf. for instance, the [UNIDROIT](http://en.wikipedia.org/wiki/UNIDROIT) initiative)

Importance

Comparative law is a very important discipline in communication between legal systems. It may provide the basis for the production of bilingual dictionaries that include the information necessary to make legal communication across borders successful. It also helps mutual understanding and the dispelling of prejudice and misinterpretation. In this globalising world, comparative law is important for it provides a platform for intellectual exchange in terms of law and it cultivates a culture of understanding in a diverse world.

# II International Organizations, Sources of Law

Sources of international law

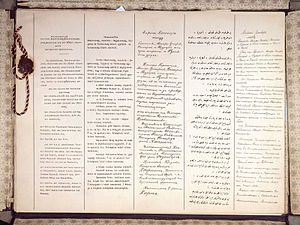
**Sources of international law** are the materials and processes out of which the rules and principles regulating the [international community](http://en.wikipedia.org/wiki/International_community) are developed. They have been influenced by a range of [political](http://en.wikipedia.org/wiki/Political_theory) and [legal theories](http://en.wikipedia.org/wiki/Legal_theory). During the 19th century, it was recognised by [legal positivists](http://en.wikipedia.org/wiki/Legal_positivism) that a [sovereign](http://en.wikipedia.org/wiki/Sovereignty) could limit its authority to act by consenting to an [agreement](http://en.wikipedia.org/wiki/Treaty) according to the principle [*pacta sunt servanda*](http://en.wikipedia.org/wiki/Pacta_sunt_servanda). This consensual view of international law was reflected in the 1920 Statute of the [Permanent Court of International Justice](http://en.wikipedia.org/wiki/Permanent_Court_of_International_Justice), and preserved in Article 38(1) of the 1946 Statute of the [International Court of Justice](http://en.wikipedia.org/wiki/International_Court_of_Justice).[[1]](http://en.wikipedia.org/wiki/Sources_of_international_law#endnote_1)

Article 38(1) is generally recognised as a definitive statement of the sources of international law. It requires the Court to apply, among other things, (a) international conventions "expressly recognized by the contesting states", and (b) "international custom, as evidence of a general practice accepted as law". To avoid the possibility of [*non liquet*](http://en.wikipedia.org/wiki/Non_liquet), sub-paragraph (c) added the requirement that the general principles applied by the Court were those that had been "the general principles of the law recognized by civilized nations". As it is states that by consent determine the content of international law, sub-paragraph (d) acknowledges that the Court is entitled to refer to "[judicial decisions](http://en.wikipedia.org/wiki/Case_law)" and the most highly qualified [juristic](http://en.wikipedia.org/wiki/Jurist) writings "as subsidiary means for the determination of rules of law".

On the question of preference between sources of international law, rules established by [treaty](http://en.wikipedia.org/wiki/Treaty) will take preference if such an instrument exists. It is also argued however that international treaties and international custom are sources of international law of equal validity; this is that new custom may supersede older treaties and new treaties may override older custom. Certainly, judicial decisions and juristic writings are regarded as auxiliary sources of international law, whereas it is unclear whether the general principles of law recognized by 'civilized nations' should be recognized as a principal or auxiliary source of international law.

It may be argued that the practice of international organizations, most notably that of the [United Nations](http://en.wikipedia.org/wiki/United_Nations), as it appears in the resolutions of the [Security Council](http://en.wikipedia.org/wiki/United_Nations_Security_Council) and the [General Assembly](http://en.wikipedia.org/wiki/United_Nations_General_Assembly), are an additional source of international law, even though it is not mentioned as such in Article 38(1) of the 1946 Statute of the [International Court of Justice](http://en.wikipedia.org/wiki/International_Court_of_Justice). Article 38(1) is closely based on the corresponding provision of the 1920 Statute of the [Permanent Court of International Justice](http://en.wikipedia.org/wiki/Permanent_Court_of_International_Justice), thus predating the role that international organizations have come to play in the international plane. That is, the provision of Article 38(1) may be regarded as *dated*, and this can most vividly be seen in the mention made to 'civilized nations', a mentioning that appears all the more quaint after the decolonization process that took place in the early 1960s and the participation of nearly all nations of the world in the [United Nations](http://en.wikipedia.org/wiki/United_Nations).

Treaty

[](http://en.wikipedia.org/wiki/File:Traktat_brzeski_1918.jpg)

[magnify-clip](http://en.wikipedia.org/wiki/File:Traktat_brzeski_1918.jpg)

The first two pages of the [Treaty of Brest-Litovsk](http://en.wikipedia.org/wiki/Treaty_of_Brest-Litovsk), in (left to right) German, Hungarian, Bulgarian, Ottoman Turkish and Russian

A **treaty** is an express agreement under [international law](http://en.wikipedia.org/wiki/International_law) entered into by actors in international law, namely [sovereign states](http://en.wikipedia.org/wiki/Sovereign_state) and [international organizations](http://en.wikipedia.org/wiki/International_organizations). A treaty may also be known as an **(international) agreement**, **protocol**, **covenant**, **convention** or **exchange of letters**, among other terms. Regardless of terminology, all of these forms of agreements are, under international law, equally considered treaties and the rules are the same.[[1]](http://en.wikipedia.org/wiki/Treaty#cite_note-0)

Treaties can be loosely compared to [contracts](http://en.wikipedia.org/wiki/Contract): both are means of willing parties assuming obligations among themselves, and a party to either that fails to live up to their obligations can be held liable under international law.

Modern usage

A treaty is an official, express written agreement that states use to legally bind themselves.[[2]](http://en.wikipedia.org/wiki/Treaties#cite_note-ShawIL5th-1) A treaty is that official document which expresses that agreement in words; and it is also the objective outcome of a ceremonial occasion which acknowledges the parties and their defined relationships.

Bilateral and multilateral treaties

Bilateral treaties are concluded between two states [[3]](http://en.wikipedia.org/wiki/Treaties#cite_note-nicholson135-2) or entities. It is possible however for a bilateral treaty to have more than two parties; consider for instance the bilateral treaties between [Switzerland](http://en.wikipedia.org/wiki/Switzerland) and the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU) following the Swiss rejection of the [European Economic Area](http://en.wikipedia.org/wiki/European_Economic_Area) agreement. Each of these treaties has seventeen parties. These however are still bilateral, not multilateral, treaties. The parties are divided into two groups, the Swiss ("on the one part") and the EU and its member states ("on the other part"). The treaty establishes rights and obligations between the Swiss and the EU and the member states severally; it does not establish any rights and obligations amongst the EU and its member states.

A multilateral treaty is concluded among several countries.[[3]](http://en.wikipedia.org/wiki/Treaties#cite_note-nicholson135-2) The agreement establishes rights and obligations between each party and every other party. Multilateral treaties are often regional. Treaties of "mutual guarantee" are international compacts, e.g., the [Treaty of Locarno](http://en.wikipedia.org/wiki/Treaty_of_Locarno) which guarantees each signatory against attack from another.[[3]](http://en.wikipedia.org/wiki/Treaties#cite_note-nicholson135-2)

Role of the United Nations

The [United Nations Charter](http://en.wikipedia.org/wiki/United_Nations_Charter) states that treaties must be registered with the [UN](http://en.wikipedia.org/wiki/UN) to be invoked before it or enforced in its judiciary organ, the [International Court of Justice](http://en.wikipedia.org/wiki/International_Court_of_Justice). This was done to prevent the proliferation of [secret treaties](http://en.wikipedia.org/wiki/Secret_treaty) that occurred in the 19th and 20th century. Section 103 of the Charter also states that its members' obligations under it outweigh any competing obligations under other treaties.

After their adoption, treaties as well as their amendments have to follow the official legal procedures of the United Nations, as applied by the [Office of Legal Affairs](http://en.wikipedia.org/wiki/United_Nations_Office_of_Legal_Affairs), including [signature](http://en.wikipedia.org/wiki/Signature), [ratification](http://en.wikipedia.org/wiki/Ratification) and [entry into force](http://en.wikipedia.org/wiki/Entry_into_force).

In function and effectiveness, the UN has been compared to the pre-Constitutional United States Federal government by some, giving a comparison between modern treaty law and the historical [Articles of Confederation](http://en.wikipedia.org/wiki/Articles_of_Confederation).

Pacta sunt servanda

***Pacta sunt servanda*** ([Latin](http://en.wikipedia.org/wiki/Latin) for "agreements must be kept"[[1]](http://en.wikipedia.org/wiki/Pacta_sunt_servanda#cite_note-0)), is a [brocard](http://en.wikipedia.org/wiki/Brocard_(law)), a basic principle of [civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)) and of [international law](http://en.wikipedia.org/wiki/International_law).

In its most common sense, the principle refers to private [contracts](http://en.wikipedia.org/wiki/Contract), stressing that contained [clauses](http://en.wikipedia.org/wiki/Clause) are [law](http://en.wikipedia.org/wiki/Law) between the parties, and implies that non-fulfilment of respective obligations is a breach of the pact.

In civil law jurisdictions this principle is related to the general principle of correct behaviour in commercial practice — including the assumption of [*good faith*](http://en.wikipedia.org/wiki/Good_faith) — is a requirement for the efficacy of the whole system, so the eventual disorder is sometimes punished by the law of some systems even without any direct penalty incurred by any of the parties. However, common law jurisdictions usually do not have the principle of good faith in commercial contracts; therefore it is inappropriate to state that pacta sunt servanda includes the principle of good faith.

With reference to international agreements, "every [treaty](http://en.wikipedia.org/wiki/Treaty) in force is binding upon the parties to it and must be performed by them in [good faith](http://en.wikipedia.org/wiki/Good_faith)."[[2]](http://en.wikipedia.org/wiki/Pacta_sunt_servanda#cite_note-1) *Pacta sunt servanda* is related to good faith, while pacta sunt servanda does not equate with good faith. This entitles [states](http://en.wikipedia.org/wiki/State_(polity)) to require that obligations be respected and to rely upon the obligations being respected. This good faith basis of treaties implies that a party to the treaty cannot invoke provisions of its [municipal (domestic) law](http://en.wikipedia.org/wiki/Municipal_law) as justification for a failure to perform. However, with regards to the Vienna Convention and the UNIDROIT Principles it should be kept in mind that these are heavily influenced by civil law jurisdictions. To derive from these sources that pacta sunt servanda includes the principle of good faith is therefore incorrect.

The only limits to *pacta sunt servanda* are the [peremptory norms](http://en.wikipedia.org/wiki/Peremptory_norm) of general international law, called *jus cogens* (compelling law). The legal principle [*clausula rebus sic stantibus*](http://en.wikipedia.org/wiki/Clausula_rebus_sic_stantibus), part of [customary international law](http://en.wikipedia.org/wiki/Customary_international_law), also allows for treaty obligations to be unfulfilled due to a compelling change in circumstances.

Stability and Growth Pact

The **Stability and Growth Pact** (**SGP**) is an agreement, among the 27 [Member states of the European Union](http://en.wikipedia.org/wiki/Member_states_of_the_European_Union), to facilitate and maintain the stability of the [Economic and Monetary Union](http://en.wikipedia.org/wiki/Economic_and_Monetary_Union_of_the_European_Union). Based primarily on Articles 121 and 126[[1]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-0) of the [Treaty on the Functioning of the European Union](http://en.wikipedia.org/wiki/Treaties_of_the_European_Union#Treaty_on_the_Functioning_of_the_European_Union), it consists of fiscal monitoring of members by the [European Commission](http://en.wikipedia.org/wiki/European_Commission) and the [Council of Ministers](http://en.wikipedia.org/wiki/Council_of_the_European_Union) and, after multiple warnings, sanctions[[2]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-1) against offending members.

The pact was adopted in 1997[[3]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-2) so that fiscal discipline would be maintained and enforced in the EMU. Member states adopting the euro have to meet the Maastricht [convergence criteria](http://en.wikipedia.org/wiki/Convergence_criteria), and the SGP ensures that they continue to observe them.

The actual criteria that member states must respect are:

* an annual budget deficit no higher than 3% of GDP (this includes the sum of all public budgets, including municipalities, regions, etc.)
* a national debt lower than 60% of GDP or approaching that value.

The SGP was initially proposed by German finance minister [Theo Waigel](http://en.wikipedia.org/wiki/Theo_Waigel) in the mid 1990s. Germany had long maintained a low-inflation policy, which had been an important part of the German economy's strong performance since the 1950s. The German government hoped to ensure the continuation of that policy through the SGP, which would limit the ability of governments to exert inflationary pressures on the European economy.

Criticism

The Pact has been criticised by some as being insufficiently flexible and needing to be applied over the [economic cycle](http://en.wikipedia.org/wiki/Economic_cycle) rather than in any one year.[[4]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-3) They fear that by limiting governments' abilities to spend during economic slumps it may hamper growth. In contrast, other critics think that the Pact is too flexible; economist Antonio Martino writes: "The fiscal constraints introduced with the new currency must be criticized not because they are undesirable—in my view they are a necessary component of a liberal order—but because they are ineffective. This is amply evidenced by the “creative accounting” gimmickry used by many countries to achieve the required deficit to GDP ratio of 3 percent, and by the immediate abandonment of fiscal prudence by some countries as soon as they were included in the euro club. Also, the Stability Pact has been watered down at the request of Germany and France."[[5]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-4)

Some remark that it has been applied inconsistently: the Council of Ministers failed to apply sanctions against France and Germany, while punitive proceedings were started (but fines never applied) when dealing with Portugal (2002) and Greece (2005). In 2002 the [European Commission](http://en.wikipedia.org/wiki/European_Commission) President (1999–2004)[[6]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-5) [Romano Prodi](http://en.wikipedia.org/wiki/Romano_Prodi) described it as "stupid",[[7]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-6) but was still required by the Treaty to seek to apply its provisions.

The Pact has proved to be unenforceable against big countries such as France and Germany, which were its strongest promoters when it was created. These countries have run "excessive" deficits under the Pact definition for some years. The reasons that larger countries have not been punished include their influence and large number of votes on the Council of Ministers, which must approve sanctions; their greater resistance to "naming and shaming" tactics, since their electorates tend to be less concerned by their perceptions in the European Union; their weaker commitment to the euro compared to smaller states; and the greater role of government spending in their larger and more enclosed economies. The Pact was further weakened in 2005 to waive France's and Germany's violations.[[8]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-7)

Reform 2005

In March 2005, the EU Council, under the pressure of France and Germany, relaxed the rules; the EC said it was to respond to criticisms of insufficient flexibility and to make the pact more enforceable.[[9]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-8)

The Ecofin agreed on a reform of the SGP. The ceilings of 3% for budget deficit and 60% for public debt were maintained, but the decision to declare a country in excessive deficit can now rely on certain parameters: the behaviour of the cyclically adjusted budget, the level of debt, the duration of the slow growth period and the possibility that the deficit is related to productivity-enhancing procedures.[[10]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-9)

Reform 2011

In March 2011, following the [2010 European sovereign debt crisis](http://en.wikipedia.org/wiki/2010_European_sovereign_debt_crisis), the EU member states adopted a new reform under the [Open Method of Coordination](http://en.wikipedia.org/wiki/Open_Method_of_Coordination), aiming at straightening the rules e.g. by adopting an automatic procedure for imposing of penaltiesin case of breaches of either the deficit or the debt rules.[[12]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-11)[[13]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-12) The new "Euro Plus Pact" is designed as a more stringent successor to the Stability and Growth Pact, which has not been implemented consistently. The measures are controversial not only because of the closed way in which it was developed but also for the goals that it postulates.

The four broad strategic goals are:

* fostering competitiveness
* fostering employment
* contributing to the sustainability of public finances
* reinforcing financial stability.

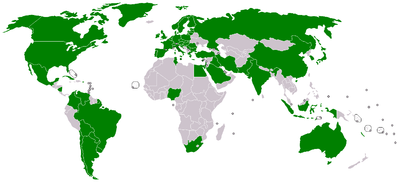
An additional fifth issue is: [[14]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-Mar25-13)

* tax policy coordination

The [European Fiscal Compact](http://en.wikipedia.org/wiki/European_Fiscal_Compact) is a proposal for a treaty about [fiscal integration](http://en.wikipedia.org/wiki/Fiscal_integration) described in a decision adopted on 9 December 2011 by the European Council. The participants are the Eurozone member states and all other EU members without the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom) and [Czech Republic](http://en.wikipedia.org/wiki/Czech_Republic). Treaty text is still to be drafted and participation approvals from national parliaments are still to be granted.[[15]](http://en.wikipedia.org/wiki/Stability_and_Growth_Pact#cite_note-14)

International Institute for the Unification of Private Law

The **International Institute for the Unification of Private Law**, abbreviated **UNIDROIT**, is an intergovernmental organization on harmonization of [private international law](http://en.wikipedia.org/wiki/Private_international_law); its projects include drafting of international [conventions](http://en.wikipedia.org/wiki/Treaty) and production of model laws. As of 2012, UNIDROIT had 63 member states.

[](http://en.wikipedia.org/wiki/File:International_Institute_for_the_Unification_of_Private_Law.png)

Conventions

Unidroit has over the years prepared the following international Conventions, drawn up by Unidroit and adopted by diplomatic Conferences convened by member States of Unidroit: [[1]](http://en.wikipedia.org/wiki/International_Institute_for_the_Unification_of_Private_Law#cite_note-0)

* Convention relating to a Uniform Law on the International Sale of Goods (The Hague, 1964)
* Convention relating to a Uniform Law on the Formation of Contracts for the International Sale of Goods (The Hague, 1964)
* International Convention on Travel Contracts (Brussels, 1970)
* Convention providing a Uniform Law on the Form of an International [Will](http://en.wikipedia.org/wiki/Will_(law)) (Washington, D.C., 1973)
* Convention on Agency in the International Sale of Goods (Geneva, 1983)
* Unidroit Convention on International Financial Leasing (Ottawa, 1988)
* Unidroit Convention on International [Factoring](http://en.wikipedia.org/wiki/Factoring_(finance)) (Ottawa, 1988)
* Unidroit Convention on Stolen or Illegally Exported Cultural Objects (Rome, 1995)
* Convention on International Interests in Mobile Equipment (Cape Town, 2001) (including Protocols on Aircraft (2001) and Railway rolling stock (2007) and Space assets (2012)
* [Geneva Securities Convention](http://en.wikipedia.org/wiki/Geneva_Securities_Convention) (Geneva, 2009)

UNIDROIT is [depositary](http://en.wikipedia.org/wiki/Depositary) of two of its conventions: the [Cape Town Convention](http://en.wikipedia.org/wiki/Cape_Town_Convention) (including its three protocols) as well as the [Geneva Securities Convention](http://en.wikipedia.org/wiki/Geneva_Securities_Convention).

United Nations Convention on Contracts for the International Sale of Goods

The **United Nations Convention on Contracts for the International Sale of Goods** (**CISG**; the **Vienna Convention**)[[1]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-0) is a [treaty](http://en.wikipedia.org/wiki/Treaty) offering a uniform international sales [law](http://en.wikipedia.org/wiki/Law). As of August 2010, it had been ratified by 77 countries which account for a significant proportion of [world trade](http://en.wikipedia.org/wiki/International_trade), making it one of the most successful international uniform laws. [Benin](http://en.wikipedia.org/wiki/Benin) was the most recent state to ratify the Convention.

The CISG allows [exporters](http://en.wikipedia.org/wiki/Exporter) to avoid [choice of law](http://en.wikipedia.org/wiki/Choice_of_law) issues, as the CISG offers "accepted substantive rules on which contracting parties, courts, and arbitrators may rely".[[2]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-1)

The CISG was developed by the [United Nations Commission on International Trade Law](http://en.wikipedia.org/wiki/United_Nations_Commission_on_International_Trade_Law) ([UNCITRAL](http://en.wikipedia.org/wiki/United_Nations_Commission_on_International_Trade_Law)), and was signed in Vienna in 1980. The CISG is sometimes referred to as the **Vienna Convention** (but is not to be confused with [other treaties signed in Vienna](http://en.wikipedia.org/wiki/Vienna_Convention)). It came into force as a [multilateral treaty](http://en.wikipedia.org/wiki/Multilateral_treaty) on 1 January 1988, after being [ratified](http://en.wikipedia.org/wiki/Ratified) by 11 countries.[[3]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-2) CISG has been regarded as a success for UNCITRAL, as the Convention has since been accepted by States from "every geographical region, every stage of economic development and every major legal, social and economic system".[[4]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-3) Countries that have ratified the CISG are referred to within the treaty as “Contracting States”. Unless excluded by the express terms[[5]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-4) of a contract, the CISG is deemed to be incorporated into (and supplant) any otherwise applicable [domestic law](http://en.wikipedia.org/wiki/Domestic_law)(s) with respect to a transaction in goods between parties from different Contracting States.[[6]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-5) Of the uniform law conventions, the CISG has been described as having "the greatest influence on the law of worldwide trans-border commerce".[[7]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-6)

The CISG has been described as a great legislative achievement,[[8]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-7) and the "most successful international document so far" in unified international sales law,[[9]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-8) in part due to its flexibility in allowing Contracting States the option of taking exception to certain specified articles. This flexibility was instrumental in convincing states with disparate legal traditions to subscribe to an otherwise uniform code. A number of countries that have signed the CISG have made declarations and reservations as to the treaty's scope,[[10]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-9) though the vast majority – 55 out of the current 76 Contracting States – has chosen to accede to the Convention without any reservations.

The CISG is the basis of the annual [Willem C. Vis International Commercial Arbitration Moot](http://en.wikipedia.org/wiki/Willem_C._Vis_Moot) held in Vienna in the week before [Easter](http://en.wikipedia.org/wiki/Easter) (and now also in Hong Kong). Teams from law schools around the world take part. The Moot is organised by [Pace University](http://en.wikipedia.org/wiki/Pace_University), which keeps a definitive source of information on the CISG.

## Reservations

A few countries have declared important reservations. For example, in the [Nordic countries](http://en.wikipedia.org/wiki/Nordic_countries) (*i.e.*, members of the [Nordic Council](http://en.wikipedia.org/wiki/Nordic_Council)), Part II is not generally applied, unless the contract expressly specifies this (reservation authorized by Article 92 CISG). Instead, local law is applied, resulting in some slight differences. For example, a Finnish seller must give a "reasonable amount of time" for a foreign buyer to consider an offer; CISG allows the seller to retract the offer before the buyer has accepted the offer. However, the Nordic countries were as of 2008 considering withdrawing their Article 92 CISG reservation.

In any event, Nordic countries do not apply CISG in trade between each other, but rather local law. This is due to a reservation in accordance with Article 94 CISG.

## Major absentees

[Brazil](http://en.wikipedia.org/wiki/Brazil), Hong Kong,[[12]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-11) India, South Africa, [Taiwan](http://en.wikipedia.org/wiki/Republic_of_China),[[13]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-12) and the United Kingdom[[14]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-13) are the only major trading countries that have not yet ratified the CISG.

The absence of the United Kingdom, a leading jurisdiction for the choice of law in international commercial contracts, has been attributed to the government not viewing the ratification as a legislative priority, a lack of interest from business in supporting the ratification, opposition from a number of large and influential organisations, a lack of public service resources, and a danger that London would lose its edge in international arbitration and litigation.[[15]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-14)

Japan deposited its instrument of accession with the [depositary](http://en.wikipedia.org/wiki/Depositary) of the CISG on 1 July 2008. The Convention thus entered into force for Japan on 1 August 2009.

## Language, structure, and content

The CISG is written using "plain language that refers to things and events for which there are words of common content".[[16]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-15) This was a conscious intent to allow national legal systems to be transcended through the use of a common legal *lingua franca* [[17]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-16) and avoids the "words associated with specific domestic legal nuances".[[18]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-17) Further, it facilitated the translation into the UN's six official languages.[[19]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-18) As is customary in UN conventions all 6 languages are equally authentic.[[20]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-19)

The CISG is divided into four parts:

### Part I: Sphere of Application and General Provisions

The CISG applies to contracts of sale of goods between parties whose places of business are in different States when these States are Contracting States (Article 1(1) (a)). Given the significant number of Contracting States, this is the usual path to the CISG's applicability.

The CISG also applies if the parties are situated in different countries (which need not be Contracting States) and the conflict of law rules lead to the application of the law of a Contracting State.[[21]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-20) For example, a contract between a Japanese trader and a Brazilian trader may contain a clause that arbitration will be in Sydney under Australian law [[22]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-21) with the consequence that the CISG would apply. It should be noted that a number of States have declared they will not be bound by this condition.[[23]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-22)

The CISG is intended to apply to commercial goods and products only. With some limited exceptions, the CISG does not apply to domestic goods, nor does it apply to auctions, ships, aircraft[[24]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-23)or intangibles[[25]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-24) and services.[[26]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-25) The position of computer software is ‘controversial’ [[27]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-26) and will depend upon various conditions and situations.[[28]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-27)

Importantly, parties to a contract may exclude or vary the application of the CISG.[[29]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-28)

Interpretation of the CISG is to take account of the ‘international character’ of the Convention, the need for uniform application and the need for good faith in international trade. Disputes over interpretation of the CISG are to be resolved by applying the ‘general principles’ of the CISG or where there are no such principles but the matters are governed by the CISG (a gap [praeter legem](http://en.wikipedia.org/wiki/Praeter_legem)) by applying the rules of private international law.[[30]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-29)

A key point of controversy had to do with whether or not a contract requires a written memorial to be binding. The CISG allows for a sale to be oral or unsigned [[31]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-30) but in some countries, contracts are not valid unless written. In many nations, however, oral contracts are accepted and those States had no objection to signing, so States with a strict written requirement exercised their ability to exclude those articles relating to oral contracts, enabling them to sign as well.[[32]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-31)

The CISG is not a complete qualification by its own definition [[33]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-32). These gaps must be filled in by the applicable national law under due consideration of the conflict of law rules applicable at the place of jurisdiction [[34]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-33).

### Part II: Formation of the Contract

An offer to contract must be addressed to a person, be sufficiently definite – that is, describe the goods, quantity and price – and indicate an intention for the offeror to be bound on acceptance.[[35]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-34)Note that the CISG does not appear to recognise common law unilateral contracts[[36]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-35) but, subject to clear indication by the offeror, treats any proposal not addressed to a specific person as only an invitation to make an offer.[[37]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-36) Further, where there is no explicit price or procedure to implicitly determine price then the parties are assumed to have agreed upon a price based upon that ‘generally charged at the time of the conclusion of the contract for such goods sold under comparable circumstances’.[[38]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-37)

Generally, an offer may be revoked provided the withdrawal reaches the offeree before or at the same time as the offer or before the offeree has sent an acceptance.[[39]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-38) Some offers may not be revoked, for example when the offeree reasonably relied upon the offer as being irrevocable.[[40]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-39) The CISG requires a positive act to indicate acceptance; silence or inactivity are not an acceptance.[[41]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-40)

The CISG attempts to resolve the common situation where an offeree’s reply to an offer accepts the original offer but attempts to change the conditions. The CISG says that any change to the original conditions is a rejection of the offer – it is a counter-offer – unless the modified terms do not materially alter the terms of the offer. Changes to price, payment, quality, quantity, delivery, liability of the parties and arbitration conditions may all materially alter the terms of the offer.[[42]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-41)

### Part III: Sale of Goods

Articles 25 – 88; sale of goods, obligations of the seller, obligations of the buyer, passing of risk, obligations common to both buyer and seller.

The CISG defines the duty of the seller, ‘stating the obvious’,[[43]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-42) as the seller must deliver the goods, hand over any documents relating to them and transfer the property in the goods, as required by the contract.[[44]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-43) Similarly, the duty of the buyer is to take all steps ‘which could reasonably be expected’ [[45]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-44) to take delivery of the goods, and to pay for them.[[46]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-45)

Generally, the goods must be of the quality, quantity and description required by the contract, be suitably packaged and fit for purpose.[[47]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-46) The seller is obliged to deliver goods that are not subject to claims from a third party for infringement of industrial or intellectual property rights in the State where the goods are to be sold.[[48]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-47) The buyer is obliged to promptly examine the goods and, subject to some qualifications, must advise the seller of any lack of conformity within ‘a reasonable time’ and no later than within two years of receipt.[[49]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-48)

The CISG describes when the risk passes from the seller to the buyer[[50]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-49) but it has been observed that in practice most contracts define the ‘seller's delivery obligations quite precisely by adopting an established shipment term’[[51]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-50) such as FOB and CIF.[[52]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-51)

Remedies of the buyer and seller depend upon the character of a breach of the contract. If the breach is fundamental then the other party is substantially deprived of what it expected to receive under the contract. Provided that an objective test shows that the breach could not have been foreseen,[[53]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-52) then the contract may be avoided[[54]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-53) and the aggrieved party may claim damages.[[55]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-54)Where part performance of a contract has occurred then the performing party may recover any payment made or good supplied;[[56]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-55) this contrasts with the common law where there is generally no right to recover a good supplied unless title has been retained or damages are inadequate, only a right to claim the value of the good.[[57]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-56)

If the breach is not fundamental then the contract is not avoided and remedies may be sought including claiming damages, specific performance and adjustment of price.[[58]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-57) Damages that may be awarded conform to the common law rules in *Hadley v Baxendale*[[59]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-58) but it has been argued the test of foreseeability is substantially broader[[60]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-59) and consequently more generous to the aggrieved party.

The CISG excuses a party from liability to a claim of damages where a failure to perform is attributable to an impediment beyond the party’s, or a third party sub-contractor’s, control that could not have been reasonably expected.[[61]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-60) Such an extraneous event might elsewhere be referred to as force majeure, and frustration of the contract.

Where a seller has to refund the price paid then the seller must also pay interest to the buyer from the date of payment.[[62]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-61) It has been said the interest rate is based on rates current in the seller’s State ‘[s]ince the obligation to pay interest partakes of the seller's obligation to make restitution and not of the buyer's right to claim damages’,[[63]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-62) although this has been debated.[[64]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-63) In a mirror of the seller’s obligations, where a buyer has to return goods the buyer is accountable for any benefits received.[[65]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-64)

### Part IV: Final Provisions

Articles 89 to 101 (final provisions) including how and when the Convention comes into force, permitted reservations and declarations, and the application of the Convention to international sales where both States concerned have the same or similar law on the subject.

The Part IV Articles, along with the Preamble, are sometime characterized as being addressed ‘primarily to States’,[[66]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-65) not to business people attempting to use the Convention for international trade. They may, however, have a significant impact upon the CISG's practical applicability,[[67]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-66) thus requiring careful scrutiny when determining each particular case.

Future directions

Greater acceptance of the CISG will come from three directions. Firstly, it is likely that within the global legal profession, as the numbers of new lawyers educated in the CISG increases, the existing Contracting States will embrace the CISG, appropriately interpret the articles and demonstrate a greater willingness to accept precedents from other Contracting States.

Secondly, business people will increasingly pressure both lawyers and governments to make sales of goods disputes less expensive and reduce the risk of being forced to use a legal system that may be completely alien to their own. Both of these objectives can be achieved through use of the CISG.[[89]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-88)

Finally, UNCITRAL will need to develop a mechanism to further develop the Convention and to resolve conflicting interpretation issues.[[90]](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods#cite_note-89) This will make it more attractive to both business people and potential Contracting States.

United Nations Commission on International Trade Law

The **United Nations Commission on International Trade Law** (UNCITRAL) was established by the [United Nations General Assembly](http://en.wikipedia.org/wiki/United_Nations_General_Assembly) by its [Resolution](http://en.wikipedia.org/wiki/United_Nations_General_Assembly_resolution) 2205 (XXI) of 17 December 1966 "to promote the progressive harmonization and unification of [international trade law](http://en.wikipedia.org/wiki/International_trade_law)".

UNCITRAL carries out its work at annual sessions held alternately in [New York City](http://en.wikipedia.org/wiki/New_York_City) and [Vienna](http://en.wikipedia.org/wiki/Vienna).

The methods of work are organized at three levels. The first level is UNCITRAL itself (The Commission), which holds an annual plenary session. The second level is the intergovernmental working groups (which is developing the topics on UNCITRAL's work program. Texts designed to simplify trade transactions and reduce associated costs are developed by working groups comprising all member States of UNCITRAL, which meet once or twice per year. Non-member States and interested international and regional organizations are also invited and can actively contribute to the work since decisions are taken by consensus, not by vote. Draft texts completed by these working groups are submitted to UNCITRAL for finalization and adoption at its annual session. The International Trade Law Division of the [United Nations Office of Legal Affairs](http://en.wikipedia.org/wiki/United_Nations_Office_of_Legal_Affairs) provides substantive secretariat services to UNCITRAL, such as conducting research and preparing studies and drafts. This is the third level, which assists the other two in the preparation and conduct of their work.

**Uncitral** is:

* Coordinating the work of organizations active and encouraging cooperation among them.
* Promoting wider participation in existing international conventions and wider acceptance of existing model and uniform laws.
* Preparing or promoting the adoption of new international conventions, model laws and uniform laws and promoting the codification and wider acceptance of international trade terms, provisions, customs and practice, in collaboration, where appropriate, with the organizations operating in this field.
* Promoting ways and means of ensuring a uniform interpretation and application of international conventions and uniform laws in the field of the law of international trade.
* Collecting and disseminating information on national legislation and modern legal developments, including case law, in the field of the law of international trade.
* Establishing and maintaining a close collaboration with the UN Conference on Trade and development.
* Maintaining liaison with other UN organs and specialized agencies concerned with international trade.

Conventions

The Convention is an agreement among participating states establishing obligations binding upon those States that ratify or accede to it. A convention is designed to unify law by establishing binding legal obligations To become a party to a convention, States are required formally to deposit a binding instrument of ratification or accession with the depositary. The entry into force of a convention is usually dependent upon the deposit of a minimum number of instruments of ratification.

UNCITRAL conventions:

* the Convention on the Limitation Period in the International Sale of Goods (1974) ([text](http://www.trans-lex.org/500100))
* the [United Nations Convention on the Carriage of Goods by Sea](http://en.wikipedia.org/wiki/United_Nations_Convention_on_the_Carriage_of_Goods_by_Sea) (1978)
* the [United Nations Convention on Contracts for the International Sale of Goods (1980)](http://en.wikipedia.org/wiki/CISG)
* the United Nations Convention on International Bills of Exchange and International Promissory Notes (1988)
* the United Nations Convention on the Liability of Operators of Transport Terminals in International Trade (1991)
* the United Nations Convention on Independent Guarantees and Stand-by Letters of Credit (1995)
* the United Nations Convention on the Assignment of Receivables in International Trade (2001)
* the United Nations Convention on the Use of Electronic Communications in International Contracts (2005)
* the [United Nations Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Carriage_of_Goods_Wholly_or_Partly_by_Sea) (2008)

Model laws

A model law is a legislative text that is recommended to States for enactment as part of their national law. Model laws are generally finalized and adapted by UNCITRAL, at its annual session, while conventions require the convening of a diplomatic conference.

* [UNCITRAL Model Law on International Commercial Arbitration](http://en.wikipedia.org/wiki/UNCITRAL_Model_Law_on_International_Commercial_Arbitration) (1985) ([text](http://www.trans-lex.org/450900))
* Model Law on International Credit Transfers (1992)
* UNCITRAL Model Law on Procurement of Goods, Construction and Services (1994)
* UNCITRAL Model Law on Electronic Commerce (1996)
* Model Law on Cross-border Insolvency (1997)
* UNCITRAL Model Law on Electronic Signatures (2001)
* UNCITRAL Model Law on International Commercial Conciliation (2002)
* Model Legislative Provisions on Privately Financed Infrastructure Projects (2003)

UNCITRAL also drafted the:

* UNCITRAL Arbitration Rules (1976) ([text](http://www.trans-lex.org/705501))—revised rules will be effective August 15, 2010; pre-released, July 12, 2010
* UNCITRAL Conciliation Rules (1980)
* UNCITRAL Arbitration Rules (1982)
* UNCITRAL Notes on Organizing Arbitral Proceedings (1996)

CLOUT (Case Law on UNCITRAL Texts)

The *Case Law on UNCITRAL Texts* system is a collection of court decisions and arbitral awards interpreting UNCITRAL texts.

CLOUT includes case abstracts in the six United Nations languages on the United Nations Convention on Contracts for the International Sale of Goods (CISG) (Vienna, 1980) and the UNCITRAL Model Law on International Commercial Arbitration (1985).

Legislative Guides

A legislative guide aims to provide a detailed analysis of the legal issues in a specific area of the law, proposing efficient approaches for their resolution in the national or local context. Legislative guides do not contain articles or provisions, but rather recommendations. Legislative Guides are developed by the UNICTRAL Working Groups and subsequently finalized by the UNCITRAL Commission in its annual session.

UNCITRAL has adopted the following legislative guides:

* UNCITRAL Legislative Guide on Privately Financed Infrastructure Projects (2000)
* UNCITRAL Legislative Guide on Insolvency Law (2004)
* UNCITRAL Legislative Guide on Secured Transactions (2007)
* UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property (2010)[[1]](http://en.wikipedia.org/wiki/United_Nations_Commission_on_International_Trade_Law#cite_note-0)

World Trade Organization

The **World Trade Organization** (**WTO**) is an organization that intends to supervise and [liberalize](http://en.wikipedia.org/wiki/Free_trade) [international trade](http://en.wikipedia.org/wiki/International_trade). The organization officially commenced on January 1, 1995 under the [Marrakech Agreement](http://en.wikipedia.org/wiki/Marrakech_Agreement), replacing the [General Agreement on Tariffs and Trade](http://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments[[5]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-underst-4):fol.9-10 and ratified by their [parliaments](http://en.wikipedia.org/wiki/Parliament).[[6]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-britannica-5) Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the [Uruguay Round](http://en.wikipedia.org/wiki/Uruguay_Round) (1986–1994).

The organization is attempting to complete negotiations on the [Doha Development Round](http://en.wikipedia.org/wiki/Doha_Development_Round), which was launched in 2001 with an explicit focus on addressing the needs of developing countries. According to a [European Union](http://en.wikipedia.org/wiki/European_Union) statement, "The 2008 Ministerial meeting broke down over a disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers on the precise terms of a 'special safeguard measure' to protect farmers from surges in imports."[[7]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-6) The position of the [European Commission](http://en.wikipedia.org/wiki/European_Commission) is that "The successful conclusion of the Doha negotiations would confirm the central role of multilateral liberalisation and rule-making. It would confirm the WTO as a powerful shield against protectionist backsliding."[[8]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-ECdoha-7) An impasse remains. As of May 2012, the future of the Doha Round remains uncertain: The work programme lists 21 subjects in which the original deadline of 1 January 2005 was missed (So was the next unofficial target of the end of 2006.)[[9]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-8)

Functions

Among the various functions of the WTO, these are regarded by analysts as the most important:

* It oversees the implementation, administration and operation of the covered agreements.[[29]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-iisd-functions-28)[[30]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-WTOmain-functions-29)
* It provides a forum for negotiations and for settling disputes.[[31]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-B17-30)[[32]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-Deere_decision-making-31)

Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making.[[30]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-WTOmain-functions-29)[[32]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-Deere_decision-making-31) Another priority of the WTO is the assistance of [developing](http://en.wikipedia.org/wiki/Developing_countries), least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.[[33]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-AT-32)

The WTO is also a centre of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization.[[34]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-EA-33) Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.[[31]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-B17-30)

Principles of the trading system

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games.[[35]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H42-34) Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-discrimination**. It has two major components: the [most favoured nation](http://en.wikipedia.org/wiki/Most_favoured_nation) (MFN) rule, and the [national treatment](http://en.wikipedia.org/wiki/National_treatment) policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favourable conditions under which it allows trade in a certain product type to all other WTO members.[[35]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H42-34) "Grant someone a special favour and you have to do the same for all other WTO members."[[23]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-PT-22) National treatment means that imported goods should be treated no less favourably than domestically produced goods (at least after the foreign goods have entered the market) and was introduced to tackle [non-tariff barriers to trade](http://en.wikipedia.org/wiki/Non-tariff_barriers_to_trade) (e.g. technical standards, security standards et al. discriminating against imported goods).[[35]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H42-34)
2. **Reciprocity**. It reflects both a desire to limit the scope of [free-riding](http://en.wikipedia.org/wiki/Free_rider_problem) that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from [unilateral](http://en.wikipedia.org/wiki/Unilateralism) liberalization; reciprocal concessions intend to ensure that such gains will materialise.[[36]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H43-35)
3. **Binding and enforceable commitments**. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.[[23]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-PT-22)[[36]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H43-35)
4. **Transparency**. The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM).[[37]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H44-36) The WTO system tries also to improve predictability and stability, discouraging the use of [quotas](http://en.wikipedia.org/wiki/Import_quota) and other measures used to set limits on quantities of imports.[[23]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-PT-22)
5. **Safety valves**. In specific circumstances, governments are able to [restrict trade](http://en.wikipedia.org/wiki/Trade_restriction). The WTO’s agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health.[[38]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-37)

There are three types of provision in this direction:

* articles allowing for the use of trade measures to attain non-economic objectives;
* articles aimed at ensuring "fair competition"; members must not use environmental protection measures as a means of disguising protectionist policies. [[39]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-38)
* provisions permitting intervention in trade for economic reasons.[[37]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-H44-36)

Exceptions to the MFN principle also allow for preferential treatment of [developing countries](http://en.wikipedia.org/wiki/Developing_country), regional [free trade areas](http://en.wikipedia.org/wiki/Free_trade_area) and [customs unions](http://en.wikipedia.org/wiki/Customs_union).[[5]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-underst-4):fol.93

Dispute settlement

In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994.[[48]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-47)Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy".[[49]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-48) WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.[[50]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-UnSD-49)

The operation of the WTO dispute settlement process involves the DSB panels, the Appellate Body, the WTO Secretariat, arbitrators, independent experts and several specialized institutions.[[51]](http://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-50)Bodies involved in the dispute settlement process, World Trade Organization.

Members and observers

The WTO has 155 members [[8]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-7) (almost all of the 123 nations participating in the Uruguay Round signed on at its foundation, and the rest had to get membership). The 27 states of the [European Union](http://en.wikipedia.org/wiki/European_Union) are represented also as the [European Communities](http://en.wikipedia.org/wiki/European_Communities). Some [non-sovereign](http://en.wikipedia.org/wiki/Sovereignty) autonomous entities of member states are included as separate members, since WTO members do not have to be full sovereign nation-members. Instead, they must be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong became a GATT contracting party by the now terminated "sponsorship" procedure of the United Kingdom (Hong Kong uses the name "Hong Kong, China" since 1997). A new member of this type is the Republic of China (Taiwan), which acceded to the WTO in 2002, and carefully crafted its application by joining under the name "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu ([Chinese Taipei](http://en.wikipedia.org/wiki/Chinese_Taipei))".[[9]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-J109-8)

Tonga was admitted on 15 December 2005 during the [ministerial conference](http://en.wikipedia.org/wiki/WTO_Ministerial_Conference_of_2005). On 11 January 2007, Vietnam became the 150th WTO member state.[[10]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-9) Tonga finalized ratification of the admittance in July 2007, and thus became the 151st member state. Ukraine became the 152nd member state on 16 May 2008. Cape Verde joined on 23 July 2008 as the 153rd member state. Subsequently, Vanuatu,[[11]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-10) Russia, Montenegro and Samoa have been admitted, bringing the number of members to 156, subject to those countries' ratification.

A number of non-members have been observers (25, including Russia) at the WTO and are currently negotiating their membership: Afghanistan, Algeria, Andorra (negotiations frozen since 2003), Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Comoros, Equatorial Guinea, Ethiopia, [Holy See](http://en.wikipedia.org/wiki/Holy_See) (Vatican; special exception from the rules allows it to remain observer without starting negotiations), Iran,[[12]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-11) Iraq, Kazakhstan, Laos, Lebanon, Libya, São Tomé and Príncipe, Serbia, Seychelles, Sudan, Syria,[[13]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-12) Tajikistan, Uzbekistan and Yemen. With the exception of the [Holy See](http://en.wikipedia.org/wiki/Holy_See), observers must start accession negotiations within five years of becoming observers. The last country admitted as observer-only before applying for full membership was Equatorial Guinea in 2002, but since 2007 it is also in full membership negotiations. In 2007 Liberia and Comoros applied directly for full membership. Some international intergovernmental organizations are also granted observer status to WTO bodies.[[14]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-13)

The following states so far have no official interaction with the WTO: [Cook Islands](http://en.wikipedia.org/wiki/Cook_Islands), East Timor, Eritrea, Kiribati, Marshall Islands, Micronesia, Monaco, Nauru, [Niue](http://en.wikipedia.org/wiki/Niue), North Korea, Palau, San Marino, Somalia, [South Sudan](http://en.wikipedia.org/wiki/South_Sudan), Turkmenistan, Tuvalu and all the [states with limited recognition](http://en.wikipedia.org/wiki/List_of_states_with_limited_recognition) except Taiwan.

Russia was the only large economy outside of the WTO after China joined in 2001.[[15]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-BBC-14)[[16]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-sfgate-15) It had begun negotiating to join the WTO's predecessor in 1993. The final major point of contention – related to the [2008 Russo-Georgian War](http://en.wikipedia.org/wiki/2008_South_Ossetia_war) – was solved by Switzerland, which mediated between Russia and Georgia.[[15]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-BBC-14) The United States and the [European Union](http://en.wikipedia.org/wiki/European_Union), the main export partners of Russia, welcomed the decision.[[15]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-BBC-14) Membership of the WTO is expected to benefit the [Russian economy](http://en.wikipedia.org/wiki/Economy_of_Russia) and attract more foreign investment to the country.[[15]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-BBC-14)[[16]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-sfgate-15)

Accession to membership of Montenegro and Samoa was adopted on 17 December 2011.[[17]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-16) Montenegro ratified its accession package on 30 March 2012 and became a fully-fledged member on 29 April 2012. Samoa became a member on 10 May 2012.[[18]](http://en.wikipedia.org/wiki/World_Trade_Organization_accession_and_membership#cite_note-monteneg-17)

International Monetary Fund

[](http://en.wikipedia.org/wiki/File:International_Monetary_Fund_logo.svg)  
Official logo for the IMF

The **International Monetary Fund** (**IMF**) is an [international organization](http://en.wikipedia.org/wiki/International_organization) that was created on July 22, 1944 at the [Bretton Woods Conference](http://en.wikipedia.org/wiki/Bretton_Woods_Conference) and came into existence on December 27, 1945 when 29 countries signed the Articles of Agreement[[1]](http://en.wikipedia.org/wiki/Imf#cite_note-ataglance-0). It originally had 45 members. The IMF's stated goal was to stabilize exchange rates and assist the reconstruction of the world’s international payment system post [World War II](http://en.wikipedia.org/wiki/World_War_II). Countries contribute money to a pool through a quota system from which countries with payment imbalances can borrow funds on a temporary basis. Through this activity and others such as surveillance of its members' economies and policies, the IMF works to improve the economies of its member countries.[[2]](http://en.wikipedia.org/wiki/Imf#cite_note-1) The IMF describes itself as “an organization of 188 countries (as of April 2012), working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.” The organization's stated objectives are to promote international economic cooperation, [international trade](http://en.wikipedia.org/wiki/International_trade), employment, and exchange rate stability, including by making financial resources available to member countries to meet [balance of payments](http://en.wikipedia.org/wiki/Balance_of_payments) needs.[[3]](http://en.wikipedia.org/wiki/Imf#cite_note-2) Its headquarters are in [Washington, D.C.](http://en.wikipedia.org/wiki/Washington,_D.C.)

## Functions

The IMF works to foster global growth and [economic stability](http://en.wikipedia.org/wiki/Economic_stability). It provides policy advice and financing to members in economic difficulties and also works with [developing nations](http://en.wikipedia.org/wiki/Developing_nations) to help them achieve macroeconomic stability and [reduce poverty](http://en.wikipedia.org/wiki/Poverty_reduction) [[37]](http://en.wikipedia.org/wiki/Imf#cite_note-36). The rationale for this is that private international capital markets function imperfectly and many countries have limited access to financial markets. Such market imperfections, together with balance of payments financing, provide the justification for official financing, without which many countries could only correct large external payment imbalances through measures with adverse effects on both national and international economic prosperity [[38]](http://en.wikipedia.org/wiki/Imf#cite_note-What.27s_Wrong-37). The IMF can provide other sources of financing to countries in need that would not be available in the absence of an economic stabilization program supported by the Fund.

Upon initial IMF formation, its two primary functions were: to oversee the fixed exchange rate arrangements between countries[[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38), thus helping national governments manage their [exchange rates](http://en.wikipedia.org/wiki/Exchange_rates) and allowing these governments to prioritize [economic growth](http://en.wikipedia.org/wiki/Economic_growth)[[40]](http://en.wikipedia.org/wiki/Imf#cite_note-39), and to provide short-term capital to aid [balance-of-payments](http://en.wikipedia.org/wiki/Balance-of-payments) [[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38). This assistance was meant to prevent the spread of international [economic crises](http://en.wikipedia.org/wiki/Economic_crises). The Fund was also intended to help mend the pieces of the international economy post [the Great Depression](http://en.wikipedia.org/wiki/The_Great_Depression) and [World War II](http://en.wikipedia.org/wiki/World_War_II) [[41]](http://en.wikipedia.org/wiki/Imf#cite_note-Crisis_of_Neoliberalism-40) .

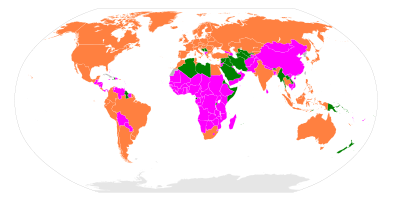
The IMF’s role was fundamentally altered after the [floating exchange rates](http://en.wikipedia.org/wiki/Floating_exchange_rates) post 1971. It shifted to examining the economic policies of countries with IMF loan agreements to determine if a shortage of capital was due to [economic fluctuations](http://en.wikipedia.org/wiki/Economic_fluctuations) or economic policy. The IMF also researched what types of government policy would ensure economic recovery [[42]](http://en.wikipedia.org/wiki/Imf#cite_note-41). The new challenge is to promote and implement policy that reduces the frequency of crises among the emerging market countries, especially the middle-income countries that are open to massive capital outflows [[43]](http://en.wikipedia.org/wiki/Imf#cite_note-42). Rather than maintaining a position of oversight of only exchange rates, their function became one of “[surveillance](http://en.wikipedia.org/wiki/Surveillance)” of the overall macroeconomic performance of its member countries. Their role became a lot more active because the IMF now manages economic policy instead of just exchange rates.

In addition, the IMF negotiates conditions on lending and loans under their policy of [conditionality](http://en.wikipedia.org/wiki/Conditionality) [[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38) , which was established in the 1950s [[41]](http://en.wikipedia.org/wiki/Imf#cite_note-Crisis_of_Neoliberalism-40). [Low-income countries](http://en.wikipedia.org/wiki/Low_income_countries) can borrow on [concessional terms](http://en.wikipedia.org/wiki/Concessional_funding), which means there is a period of time with no interest rates, through the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF). Non-concessional loans, which include interest rates, are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility. The IMF provides emergency assistance via the newly introduced Rapid Financing Instrument (RFI) to all its members facing urgent balance of payments needs [[44]](http://en.wikipedia.org/wiki/Imf#cite_note-43).

### Surveillance of the global economy

The IMF is mandated to oversee the international monetary and financial system [[45]](http://en.wikipedia.org/wiki/Imf#cite_note-IMF_Surveillance:_A_Case_Study_on_IMF_Governance-44) and monitor the economic and financial policies of its 188 member countries. This activity is known as surveillance and facilitates international cooperation [[46]](http://en.wikipedia.org/wiki/Imf#cite_note-45) . Since the demise of the [Bretton Woods system](http://en.wikipedia.org/wiki/Bretton_Woods_system) of fixed exchange rates in the early 1970s, surveillance has evolved largely by way of changes in procedures rather than through the adoption of new obligations [[45]](http://en.wikipedia.org/wiki/Imf#cite_note-IMF_Surveillance:_A_Case_Study_on_IMF_Governance-44) . The responsibilities of the Fund changed from those of guardian to those of overseer of members’ policies.

The Fund typically analyzes the appropriateness of each member country’s economic and financial policies for achieving orderly [economic growth](http://en.wikipedia.org/wiki/Economic_growth), and assesses the consequences of these policies for other countries and for the [global economy](http://en.wikipedia.org/wiki/Global_economy)

[](http://en.wikipedia.org/wiki/File:IMF_DDS.svg)

[magnify-clip](http://en.wikipedia.org/wiki/File:IMF_DDS.svg)

IMF [Data Dissemination Systems](http://en.wikipedia.org/wiki/International_Monetary_Fund#Data_Dissemination_Systems) participants:

  IMF member using SDDS

  IMF member using GDDS

  IMF member, not using any of the DDSystems

  Non-IMF entity using SDDS

  Non-IMF entity using GDDS

  No interaction with the IMF

In 1995 the International Monetary Fund began work on data dissemination standards with the view of guiding IMF member countries to disseminate their economic and financial data to the public. The International Monetary and Financial Committee (IMFC) endorsed the guidelines for the dissemination standards and they were split into two tiers: The General Data Dissemination System (GDDS) and the [Special Data Dissemination Standard](http://en.wikipedia.org/wiki/Special_Data_Dissemination_Standard) (SDDS).

The International Monetary Fund executive board approved the SDDS and GDDS in 1996 and 1997 respectively, and subsequent amendments were published in a revised *Guide to the General Data Dissemination System*. The system is aimed primarily at statisticians and aims to improve many aspects of statistical systems in a country. It is also part of the World Bank Millennium Development Goals and Poverty Reduction Strategic Papers.

The primary objective of the GDDS is to encourage IMF member countries to build a framework to improve data quality and increase statistical capacity building. Upon building a framework, a country can evaluate statistical needs, set priorities in improving the timeliness, [transparency](http://en.wikipedia.org/wiki/Transparency_(behavior)), reliability and accessibility of financial and economic data. Some countries initially used the GDDS, but later upgraded to SDDS.

### Conditionality of loans

IMF conditionality is a set of policies or “conditions” that the IMF requires in exchange for financial resources [[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38). The IMF does not require [collateral](http://en.wikipedia.org/wiki/Collateral_(finance)) from countries for loans but rather requires the government seeking assistance to correct its macroeconomic imbalances in the form of policy reform. If the conditions are not met, the funds are withheld [[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38). Conditionality is perhaps the most controversial aspect of IMF policies [[48]](http://en.wikipedia.org/wiki/Imf#cite_note-An_Analysis_of_IMF_Conditionality-47) . The concept of conditionality was introduced in an Executive Board decision in 1952 and later incorporated in the Articles of Agreement.

Conditionality is associated with economic theory as well as an enforcement mechanism for repayment. Stemming primarily from the work of Jacques Polak in the Fund’s research department, the theoretical underpinning of conditionality was the “monetary approach to the balance of payments."[[41]](http://en.wikipedia.org/wiki/Imf#cite_note-Crisis_of_Neoliberalism-40)

#### Benefits

These loan conditions ensure that the borrowing country will be able to repay the Fund and that the country won’t attempt to solve their balance of payment problems in a way that would negatively impact the [international economy](http://en.wikipedia.org/wiki/International_economy)[[49]](http://en.wikipedia.org/wiki/Imf#cite_note-48) [[50]](http://en.wikipedia.org/wiki/Imf#cite_note-IMF_Conditionality_and_Country_Ownership_of_Programs-49) . The incentive problem of [moral hazard](http://en.wikipedia.org/wiki/Moral_hazard), which is the actions of [economic agents](http://en.wikipedia.org/wiki/Economic_agents) maximizing their own [utility](http://en.wikipedia.org/wiki/Utility) to the detriment of others when they do not bear the full consequences of their actions, is mitigated through conditions rather than providing collateral; countries in need of IMF loans do not generally possess internationally valuable collateral anyway. Conditionality also reassures the IMF that the funds lent to them will be used for the purposes defined by the Articles of Agreement and provides safeguards that country will be able to rectify its macroeconomic and structural imbalances [[50]](http://en.wikipedia.org/wiki/Imf#cite_note-IMF_Conditionality_and_Country_Ownership_of_Programs-49). In the judgment of the Fund, the adoption by the member of certain corrective measures or policies will allow it to repay the Fund, thereby ensuring that the same resources will be available to support other members [[48]](http://en.wikipedia.org/wiki/Imf#cite_note-An_Analysis_of_IMF_Conditionality-47).

Some critics assume that Fund lending imposes a burden on creditor countries. However, countries receive market-related interest rates on most of their quota subscription, plus any of their own-currency subscriptions that are loaned out by the Fund, plus all of the reserve assets that they provide the Fund. Also, as of 2005 borrowing countries have had a very good track record of repaying credit extended under the Fund's regular lending facilities with the full interest over the duration of the borrowing [[38]](http://en.wikipedia.org/wiki/Imf#cite_note-What.27s_Wrong-37).

#### Criticisms

The IMF has the obstacle of being unfamiliar with local economic conditions, cultures, and environments in the countries they are requiring policy reform [[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38). The Fund knows very little about what public spending on programs like public health and education actually means, especially in African countries; they have no feel for the impact that their proposed national budget will have on people. The economic advice the IMF gives might not always take into consideration the difference between what spending means on paper and how it’s felt by citizens [[51]](http://en.wikipedia.org/wiki/Imf#cite_note-The_End_of_Poverty-50). For example, Jeffrey Sach's work shows that "the Fund’s usual prescription is 'budgetary belt tightening to countries who are much too poor to own belts'[[51]](http://en.wikipedia.org/wiki/Imf#cite_note-The_End_of_Poverty-50)." The IMF’s role as a generalist institution specializing in macroeconomic issues needs reform. Conditionality has also been criticized because a country can pledge collateral of “acceptable assets” in order to obtain waivers on certain conditions [[50]](http://en.wikipedia.org/wiki/Imf#cite_note-IMF_Conditionality_and_Country_Ownership_of_Programs-49). However, that assumes that all countries have the capability and choice to provide acceptable collateral.

One view is that conditionality undermines domestic political institutions [[52]](http://en.wikipedia.org/wiki/Imf#cite_note-51) . The recipient governments are sacrificing policy autonomy in exchange for funds, which can lead to public resentment of the local leadership for accepting and enforcing the IMF conditions. Political instability can result from more leadership turnover as political leaders are replaced in electoral backlashes.[[39]](http://en.wikipedia.org/wiki/Imf#cite_note-Jensen_2004.2C_April.2C_Issue_48-38). IMF conditions are often criticized for their bias against economic growth and reduce government services, thus increasing unemployment [[41]](http://en.wikipedia.org/wiki/Imf#cite_note-Crisis_of_Neoliberalism-40) . Another criticism is that IMF programs are only designed to address poor governance, excessive government spending, excessive government intervention in markets, and too much state ownership. This assumes that this narrow range of issues represents the only possible problems; everything is standardized and differing contexts are ignored [[51]](http://en.wikipedia.org/wiki/Imf#cite_note-The_End_of_Poverty-50). A country may also be compelled to accept conditions it would not normally accept had they not been in a financial crisis in need of assistance [[48]](http://en.wikipedia.org/wiki/Imf#cite_note-An_Analysis_of_IMF_Conditionality-47).

It is claimed that [conditionalities](http://en.wikipedia.org/wiki/Conditionalities) retard social stability and hence inhibit the stated goals of the IMF, while Structural Adjustment Programs lead to an increase in poverty in recipient countries.[[53]](http://en.wikipedia.org/wiki/Imf#cite_note-Hertz-52)The IMF sometimes advocates “[austerity programmes](http://en.wikipedia.org/wiki/Austerity),” cutting public spending and increasing taxes even when the economy is weak, in order to bring budgets closer to a balance, thus reducing [budget deficits](http://en.wikipedia.org/wiki/Budget_deficit). Countries are often advised to lower their corporate tax rate. In [Globalization and Its Discontents](http://en.wikipedia.org/wiki/Globalization_and_Its_Discontents), [Joseph E. Stiglitz](http://en.wikipedia.org/wiki/Joseph_E._Stiglitz), former chief economist and senior vice president at the [World Bank](http://en.wikipedia.org/wiki/World_Bank), criticizes these policies.[[54]](http://en.wikipedia.org/wiki/Imf#cite_note-Stiglitz-53) He argues that by converting to a more [monetarist](http://en.wikipedia.org/wiki/Monetarist) approach, the purpose of the fund is no longer valid, as it was designed to provide funds for countries to carry out [Keynesian](http://en.wikipedia.org/wiki/Keynesian) reflations, and that the IMF “was not participating in a conspiracy, but it was reflecting the interests and ideology of the Western financial community.”[[55]](http://en.wikipedia.org/wiki/Imf#cite_note-54)

### Reform

The IMF is only one of many [international organizations](http://en.wikipedia.org/wiki/International_organizations) and it is a generalist institution for macroeconomic issues only; its core areas of concern in [developing countries](http://en.wikipedia.org/wiki/Developing_countries) are very narrow. One proposed reform is a movement towards close partnership with other specialist agencies in order to better productivity. The IMF has little to no communication with other international organizations such as UN specialist agencies like [UNICEF](http://en.wikipedia.org/wiki/UNICEF), the [Food and Agriculture Organization](http://en.wikipedia.org/wiki/Food_and_Agriculture_Organization) (FAO), and [the United Nations Development Program](http://en.wikipedia.org/wiki/The_United_Nations_Development_Program) (UNDP)[[51]](http://en.wikipedia.org/wiki/Imf#cite_note-The_End_of_Poverty-50). [Jeffrey Sachs](http://en.wikipedia.org/wiki/Jeffrey_Sachs) argues in [The End of Poverty](http://en.wikipedia.org/wiki/The_End_of_Poverty): “international institutions like the International Monetary Fund (IMF) and the World Bank have the brightest economists and the lead in advising poor countries on how to break out of poverty, but the problem is development economics”[[51]](http://en.wikipedia.org/wiki/Imf#cite_note-The_End_of_Poverty-50). [Development economics](http://en.wikipedia.org/wiki/Development_economics) needs the reform, not the IMF. He also notes that IMF loan conditions need to be partnered with other reforms such as trade reform in [developed nations](http://en.wikipedia.org/wiki/Developed_nations), [debt cancellation](http://en.wikipedia.org/wiki/Debt_cancellation), and increased financial assistance for investments in [basic infrastructure](http://en.wikipedia.org/wiki/Infrastructure) in order to be effective[[51]](http://en.wikipedia.org/wiki/Imf#cite_note-The_End_of_Poverty-50). IMF loan conditions cannot stand alone and produce change; they need to be partnered with other reforms.

United Nations Global Compact

60px-Small_Flag_of_the_United_Nations_ZP **UN Global Compact**

The **United Nations Global Compact**, also known as **Compact** or **UNGC**, is a [United Nations](http://en.wikipedia.org/wiki/United_Nations) initiative to encourage businesses worldwide to adopt sustainable and [socially responsible](http://en.wikipedia.org/wiki/Corporate_social_responsibility) policies, and to report on their implementation. The Global Compact is a principle-based framework for businesses, stating ten principles in the areas of [human rights](http://en.wikipedia.org/wiki/Human_rights), [labour](http://en.wikipedia.org/wiki/Labor_relations), the [environment](http://en.wikipedia.org/wiki/Environment_(biophysical)) and [anti-corruption](http://en.wikipedia.org/wiki/Anti-corruption). Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society.

The Global Compact is the world's largest [corporate citizenship](http://en.wikipedia.org/wiki/Corporate_social_responsibility) initiative and as voluntary initiative has two objectives: "Mainstream the ten principles in business activities around the world" and "Catalyse actions in support of broader UN goals, such as the [Millennium Development Goals](http://en.wikipedia.org/wiki/Millennium_Development_Goals) (MDGs)."[[1]](http://en.wikipedia.org/wiki/United_Nations_Global_Compact#cite_note-0)

The Global Compact was first announced by the then UN Secretary-General [Kofi Annan](http://en.wikipedia.org/wiki/Kofi_Annan) in an address to The [World Economic Forum](http://en.wikipedia.org/wiki/World_Economic_Forum) on January 31, 1999[[2]](http://en.wikipedia.org/wiki/United_Nations_Global_Compact#cite_note-1), and was officially launched at [UN Headquarters](http://en.wikipedia.org/wiki/UN_Headquarters) in New York on July 26, 2000.

The **Global Compact Office** is supported by six UN agencies: the [United Nations High Commissioner for Human Rights](http://en.wikipedia.org/wiki/United_Nations_High_Commissioner_for_Human_Rights); the [United Nations Environment Programme](http://en.wikipedia.org/wiki/United_Nations_Environment_Programme); the [International Labour Organization](http://en.wikipedia.org/wiki/International_Labour_Organization); the [United Nations Development Programme](http://en.wikipedia.org/wiki/United_Nations_Development_Programme); the [United Nations Industrial Development Organization](http://en.wikipedia.org/wiki/United_Nations_Industrial_Development_Organization); and the [United Nations Office on Drugs and Crime](http://en.wikipedia.org/wiki/United_Nations_Office_on_Drugs_and_Crime).

The Ten Principles

The Global Compact was initially launched with nine Principles. June 24, 2004, during the first Global Compact Leaders Summit, Kofi Annan announced the addition of a tenth principle against [corruption](http://en.wikipedia.org/wiki/Political_corruption) in accordance with the [United Nations Convention against Corruption](http://en.wikipedia.org/wiki/United_Nations_Convention_against_Corruption) adopted in 2003. This step followed an extensive consultation process with all Global Compact participants.

**Human Rights**  
Businesses should:

* Principle 1: Support and respect the protection of internationally proclaimed [human rights](http://en.wikipedia.org/wiki/Human_rights); and
* Principle 2: Make sure that they are not complicit in [human rights abuses](http://en.wikipedia.org/wiki/Human_rights_abuses).

**Labour Standards**  
Businesses should uphold:

* Principle 3: the [freedom of association](http://en.wikipedia.org/wiki/Freedom_of_association) and the effective recognition of the [right to collective bargaining](http://en.wikipedia.org/wiki/Right_to_collective_bargaining);
* Principle 4: the elimination of all forms of forced and [compulsory labour](http://en.wikipedia.org/wiki/Compulsory_labour);
* Principle 5: the effective abolition of [child labour](http://en.wikipedia.org/wiki/Child_labour); and
* Principle 6: the elimination of discrimination in employment and occupation.

**Environment**  
Businesses should:

* Principle 7: support a [precautionary approach](http://en.wikipedia.org/wiki/Precautionary_approach) to environmental challenges;
* Principle 8: undertake initiatives to promote environmental responsibility; and
* Principle 9: encourage the development and diffusion of environmentally friendly technologies.

**Anti-Corruption**

* Principle 10: Businesses should work against [corruption](http://en.wikipedia.org/wiki/Political_corruption) in all its forms, including [extortion](http://en.wikipedia.org/wiki/Extortion) and [bribery](http://en.wikipedia.org/wiki/Bribery).

Association of Southeast Asian Nations

The **Association of Southeast Asian Nations**[[5]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-4) (**ASEAN**)[[7]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-7) is a [geo-political](http://en.wikipedia.org/wiki/Geo-political) and economic organization of ten countries located in [Southeast Asia](http://en.wikipedia.org/wiki/Southeast_Asia), which was formed on 8 August 1967 by [Indonesia](http://en.wikipedia.org/wiki/Indonesia), [Malaysia](http://en.wikipedia.org/wiki/Malaysia), the [Philippines](http://en.wikipedia.org/wiki/Philippines), [Singapore](http://en.wikipedia.org/wiki/Singapore) and [Thailand](http://en.wikipedia.org/wiki/Thailand).[[9]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-8) Since then, membership has expanded to include [Brunei](http://en.wikipedia.org/wiki/Brunei), [Burma (Myanmar)](http://en.wikipedia.org/wiki/Burma), [Cambodia](http://en.wikipedia.org/wiki/Cambodia), [Laos](http://en.wikipedia.org/wiki/Laos), and [Vietnam](http://en.wikipedia.org/wiki/Vietnam). Its aims include accelerating [economic growth](http://en.wikipedia.org/wiki/Economic_growth), [social progress](http://en.wikipedia.org/wiki/Social_progress), cultural development among its members, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully.[[10]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-9)

ASEAN covers a land area of 4.46 million km², which is 3% of the total land area of Earth, and has a population of approximately 600 million people, which is 8.8% of the world's population. The sea area of ASEAN is about three times larger than its land counterpart. In 2010, its combined nominal GDP had grown to US$1.8 trillion.[[11]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-10) If ASEAN were a single entity, it would rank as the ninth largest economy in the world, behind the [United States](http://en.wikipedia.org/wiki/United_States), [China](http://en.wikipedia.org/wiki/China), [Japan](http://en.wikipedia.org/wiki/Japan), [Germany](http://en.wikipedia.org/wiki/Germany), [France](http://en.wikipedia.org/wiki/France), [Brazil](http://en.wikipedia.org/wiki/Brazil), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), and [Italy](http://en.wikipedia.org/wiki/Italy).

The ASEAN way

[](http://en.wikipedia.org/wiki/File:ASEAN_Nations_Flags_in_Jakarta_3.jpg)

[magnify-clip](http://en.wikipedia.org/wiki/File:ASEAN_Nations_Flags_in_Jakarta_3.jpg)

The flags of 10 ASEAN members.

In the 1960s, the push for [decolonisation](http://en.wikipedia.org/wiki/Decolonisation) promoted the sovereignty of Indonesia and Malaysia among others. Since nation building is often messy and vulnerable to foreign intervention, the governing elite wanted to be free to implement independent policies with the knowledge that neighbours would refrain from interfering in their domestic affairs. Territorially small members such as Singapore and Brunei were consciously fearful of force and coercive measures from much bigger neighbours like Indonesia and Malaysia.

ASEAN member-states, especially Singapore, approve of the term ‘ASEAN Way’ to describe their ‘own’ method of [multilateralism](http://en.wikipedia.org/wiki/Multilateralism) that is divergent from the Western-style. According to Amitav Acharya, ASEAN Way indicates “a process of ‘regional interactions and cooperation based on discreteness, informality, consensus building and non-confrontational bargaining styles’ that contrasts with ‘the adversarial posturing, majority vote and other legalistic decision-making procedures in Western multilateral organizations.’"[[40]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-39)

The ASEAN way can be traced back to the signing of the [Treaty of Amity and Cooperation in Southeast Asia](http://en.wikipedia.org/wiki/Treaty_of_Amity_and_Cooperation_in_Southeast_Asia). "Fundamental principles adopted from this included:

* mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
* the right of every State to lead its national existence free from external interference, subversion or coercion;
* non-interference in the internal affairs of one another;
* settlement of differences or disputes by peaceful manner;
* renunciation of the threat or use of force; and
* effective cooperation among themselves".[[41]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-40)

The ‘ASEAN way’ is what contributed to the durability and longevity of the organization by promoting regional identity and enhancing a spirit of mutual confidence and cooperation. ASEAN leaders said that "Through political dialogue and confidence building, no tension has escalated into armed confrontation among ASEAN member countries since its establishment more than three decades ago".[[42]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-41)

However, the ASEAN Way, which is considered so essential and central to ASEAN, also serves as the major stumbling-block to it becoming a true diplomacy mechanism.

On the surface, the process of consultations and consensus is supposed to be a democratic approach to decision making, but the ASEAN process has been managed through close interpersonal contacts among the top leaders only, who often share a reluctance to institutionalise and legalise co-operation which can undermine their regime's control over the conduct of regional co-operation. Thus, the organisation is chaired by the secretariat.[[43]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-42)

Of all the features that constitute what is called the ASEAN Way – non-interference, informality, minimal institutionalisation, consultation and consensus, non-use of force and non-confrontation, the principle of non-interference in the domestic affairs of one another is the primary cause that renders the organization ineffective. For instance, in case of ASEAN Plus Three, Taiwan issue and South China Sea issue are not addressed and deliberately eschewed due to China’s insistence and the non-interference principle. Thus, some of the most contentious issues are left unsettled. Recently, more member-states are directly and indirectly advocating that ASEAN be more flexible and allow discourse on internal affairs of member countries.

Moreover, ASEAN's non-interference principle is used as a justification for human rights violations and neglect of global norms and efforts in undemocratic Asian countries. Burma’s human rights abuses and [haze](http://en.wikipedia.org/wiki/Haze) pollution has aggravated. China’s brutal crackdown on its minority race is overlooked. Meanwhile, with the consensus-based approach, every member in fact has a veto and decisions are usually reduced to the [lowest common denominator](http://en.wikipedia.org/wiki/Lowest_common_denominator). There has been a widespread belief that ASEAN members should have a less rigid view on these two cardinal principles when they wish to be seen as a cohesive and relevant community.

### Policies

Apart from consultations and consensus, ASEAN’s agenda-setting and decision-making processes can be usefully understood in terms of the so-called Track I and Track II. Track I refers to the practice of diplomacy among government channels. The participants stand as representatives of their respective states and reflect the official positions of their governments during negotiations and discussions. All official decisions are made in Track I. Therefore, "Track I refers to intergovernmental processes".[[44]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-pdserve.informaworld.com-43) Track II differs slightly from Track I, involving civil society groups and other individuals with various links who work alongside governments.[[45]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-44) This track enables governments to discuss controversial issues and test new ideas without making official statements or binding commitments, and, if necessary, backtrack on positions.

Although Track II dialogues are sometimes cited as examples of the involvement of [civil society](http://en.wikipedia.org/wiki/Civil_society) in regional decision-making process by governments and other second track actors, NGOs have rarely got access to this track; meanwhile participants from the academic community are a dozen think-tanks. However, these think-tanks are, in most cases, very much linked to their respective governments, and dependent on government funding for their academic and policy-relevant activities, and many working in Track II have previous bureaucratic experience.[[44]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-pdserve.informaworld.com-43) Their recommendations, especially in [economic integration](http://en.wikipedia.org/wiki/Economic_integration), are often closer to ASEAN’s decisions than the rest of civil society’s positions.

The track that acts as a forum for civil society in Southeast Asia is called Track III. Track III participants are generally civil society groups who represent a particular idea or brand.[[46]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-45) Track III [networks](http://en.wikipedia.org/wiki/Social_network) claim to represent communities and people who are largely marginalised from political power centres and unable to achieve positive change without outside assistance. This track tries to influence government policies indirectly by [lobbying](http://en.wikipedia.org/wiki/Lobbying), generating pressure through the media. Third-track actors also organise and/or attend meetings as well as conferences to get access to Track I officials.

While Track II meetings and interactions with Track I actors have increased and intensified, rarely has the rest of civil society had the opportunity to interface with Track II. Those with Track I have been even rarer.

Looking at the three tracks, it is clear that until now, ASEAN has been run by government officials who, as far as ASEAN matters are concerned, are accountable only to their governments and not the people. In a lecture on the occasion of ASEAN’s 38th anniversary, the incumbent Indonesian President Dr. [Susilo Bambang Yudhoyono](http://en.wikipedia.org/wiki/Susilo_Bambang_Yudhoyono) admitted:

“All the decisions about treaties and free trade areas, about declarations and plans of action, are made by Heads of Government, ministers and senior officials. And the fact that among the masses, there is little knowledge, let alone appreciation, of the large initiatives that ASEAN is taking on their behalf.”[[47]](http://en.wikipedia.org/wiki/Association_of_Southeast_Asian_Nations#cite_note-46)

North American Free Trade Agreement

The **North American Free Trade Agreement** (**NAFTA**) is an agreement signed by the governments of [Canada](http://en.wikipedia.org/wiki/Canada), [Mexico](http://en.wikipedia.org/wiki/Mexico), and the [United States](http://en.wikipedia.org/wiki/United_States), creating a trilateral [trade bloc](http://en.wikipedia.org/wiki/Trade_bloc) in North America. The agreement came into force on January 1, 1994. It superseded the [Canada – United States Free Trade Agreement](http://en.wikipedia.org/wiki/Canada_%E2%80%93_United_States_Free_Trade_Agreement) between the U.S. and Canada. In terms of combined [GDP](http://en.wikipedia.org/wiki/GDP) of its members, as of 2010 the trade bloc is the [largest in the world](http://en.wikipedia.org/wiki/Trade_bloc#Most_active_regional_blocs).

NAFTA has two supplements: the [North American Agreement on Environmental Cooperation](http://en.wikipedia.org/wiki/North_American_Agreement_on_Environmental_Cooperation) (NAAEC) and the North American Agreement on Labor Cooperation (NAALC).

## Provisions

The goal of NAFTA was to eliminate barriers to trade and investment between the US, Canada and Mexico. The implementation of NAFTA on January 1, 1994 brought the immediate elimination of [tariffs](http://en.wikipedia.org/wiki/Tariff) on more than one-half of Mexico's exports to the U.S. and more than one-third of U.S. exports to Mexico. Within 10 years of the implementation of the agreement, all US-Mexico tariffs would be eliminated except for some U.S. agricultural exports to Mexico that were to be phased out within 15 years. Most U.S.-Canada trade was already duty free. NAFTA also seeks to eliminate non-tariff trade barriers and to protect the intellectual property right of the products.

In the area of intellectual property, the North American Free Trade Agreement Implementation Act made some changes to the [Copyright law of the United States](http://en.wikipedia.org/wiki/Copyright_law_of_the_United_States), foreshadowing the [Uruguay Round Agreements Act](http://en.wikipedia.org/wiki/Uruguay_Round_Agreements_Act) of 1994 by restoring copyright (within NAFTA) on certain motion pictures which had entered the public domain.[[5]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-4)

## Mechanisms

Chapter 52 provides a procedure for the interstate resolution of disputes over the application and interpretation of NAFTA. It was modelled after Chapter 69of the Canada-United States Free Trade Agreement.[[6]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-5)

NAFTA's effects, both positive and negative, have been quantified by several economists, whose findings have been reported in publications such as the [World Bank](http://en.wikipedia.org/wiki/World_Bank)'s *Lessons from NAFTA for Latin America and the Caribbean*,[[7]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-6) *NAFTA's Impact on North America*,[[8]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-7) and *NAFTA Revisited* by the Institute for International Economics.[[9]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-8) Some[[who?](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] argue that NAFTA has been positive for Mexico, which has seen its [poverty](http://en.wikipedia.org/wiki/Poverty) rates fall and real [income](http://en.wikipedia.org/wiki/Income) rise (in the form of lower prices, especially food), even after accounting for the .[[10]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-9) Others[[who?](http://en.wikipedia.org/wiki/Wikipedia:Avoid_weasel_words)] argue that NAFTA has been beneficial to business owners and elites in all three countries, but has had negative impacts on farmers in Mexico who saw food prices fall based on cheap imports from US [agribusiness](http://en.wikipedia.org/wiki/Agribusiness), and negative impacts on US workers in manufacturing and assembly industries who lost jobs. Critics also argue that NAFTA has contributed to the rising levels of inequality in both the US and Mexico. Some economists believe that NAFTA has not been enough (or worked fast enough) to produce an economic convergence,[[11]](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement#cite_note-10) nor to substantially reduce poverty rates. Some have suggested that in order to fully benefit from the agreement, Mexico must invest more in education and promote innovation in [infrastructure](http://en.wikipedia.org/wiki/Infrastructure) and [agriculture](http://en.wikipedia.org/wiki/Agriculture).

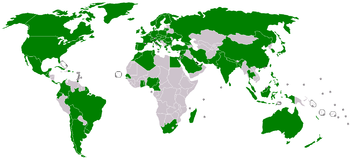
### Trade

The agreement opened the door for open trade, ending tariffs on various goods and services, and implementing equality between Canada, America, and Mexico. NAFTA has allowed agricultural goods such as eggs, corn, and meats to be tariff-free. This allowed corporations to trade freely and import and export various goods on a North American scale.

Incoterms

The **Incoterms** rules or **International Commercial terms** are a series of pre-defined commercial terms published by the [International Chamber of Commerce](http://en.wikipedia.org/wiki/International_Chamber_of_Commerce) (ICC) widely used in international commercial transactions. A series of three-letter trade terms related to common sales practices, the Incoterms rules are intended primarily to clearly communicate the tasks, costs and risks associated with the transportation and delivery of goods. The Incoterms rules are accepted by governments, legal authorities and practitioners worldwide for the interpretation of most commonly used terms in international trade. They are intended to reduce or remove altogether uncertainties arising from different interpretation of the rules in different countries. First published in 1936, the Incoterms rules have been periodically updated, with the eighth version—*Incoterms 2010*—having been published on January 1, 2011. "Incoterms" is a registered [trademark](http://en.wikipedia.org/wiki/Trademark) of the ICC.

History

[](http://en.wikipedia.org/wiki/File:Incoterms_map.png)

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National Incoterms chambers.

The Incoterms rules began development in 1921 with the forming of the idea by the International Chamber of Commerce.[[1]](http://en.wikipedia.org/wiki/Incoterms#cite_note-0) In 1936, the first set of the Incoterms rules was published.[[2]](http://en.wikipedia.org/wiki/Incoterms#cite_note-MorrisseyGraves2008-1) The first set remained in use for almost 20 years before the second publication in 1953. Additional amendments and expansions followed in 1967, 1976, 1980, 1990 and 2000. The eighth and current version of the Incoterms rules—*Incoterms 2010*—was published on January 1, 2011.[[3]](http://en.wikipedia.org/wiki/Incoterms#cite_note-2)[[4]](http://en.wikipedia.org/wiki/Incoterms#cite_note-3)[[5]](http://en.wikipedia.org/wiki/Incoterms#cite_note-4)

## Incoterms 2010

The eighth published set of pre-defined terms, *Incoterms 2010* defines 11 rules, reducing the 13 used in Incoterms 2000 by introducing two new rules ("Delivered at Terminal", DAT; "Delivered at Place", DAP) that replace four rules of the prior version ("Delivered at Frontier", DAF; "Delivered Ex Ship", DES; "Delivered Ex Quay", DEQ; "Delivered Duty Unpaid", DDU).[[6]](http://en.wikipedia.org/wiki/Incoterms#cite_note-5) In the prior version, the rules were divided into four categories, but the 11 pre-defined terms of *Incoterms 2010* are subdivided into two categories based only on method of delivery. The larger group of seven rules applies regardless of the method of transport, with the smaller group of four being applicable only to sales that solely involve transportation over water.

### Rules for Any Mode(s) of Transport

The seven rules defined by *Incoterms 2010* for any mode(s) of transportation are:

**EXW – Ex Works (named place of delivery)**

The seller makes the goods available at its premises. This term places the maximum obligation on the buyer and minimum obligations on the seller. The Ex Works term is often used when making an initial quotation for the sale of goods without any costs included. EXW means that a seller has the goods ready for collection at his premises (works, factory, warehouse, plant) on the date agreed upon. The buyer pays all transportation costs and also bears the risks for bringing the goods to their final destination. The seller doesn't load the goods on collecting vehicles and doesn't clear them for export. If the seller does load the good, he does so at buyer's risk and cost. If parties wish seller to be responsible for the loading of the goods on departure and to bear the risk and all costs of such loading, this must be made clear by adding explicit wording to this effect in the contract of sale.

**FCA – Free Carrier (named place of delivery)**

The seller hands over the goods, cleared for export, into the disposal of the first carrier (named by the buyer) at the named place. The seller pays for carriage to the named point of delivery, and risk passes when the goods are handed over to the first carrier.

**CPT - Carriage Paid To (named place of destination)**

The seller pays for carriage. Risk transfers to buyer upon handing goods over to the first carrier.

**CIP – Carriage and Insurance Paid to (named place of destination)**

The containerized transport/multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.

**DAT – Delivered at Terminal (named terminal at port or place of destination)**

Seller pays for carriage to the terminal, except for costs related to import clearance, and assumes all risks up to the point that the goods are unloaded at the terminal.

**DAP – Delivered at Place (named place of destination)**

Seller pays for carriage to the named place, except for costs related to import clearance, and assumes all risks prior to the point that the goods are ready for unloading by the buyer.

**DDP – Delivered Duty Paid (named place of destination)**

Seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes. This term places the maximum obligations on the seller and minimum obligations on the buyer.

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### Rules for Sea and Inland Waterway Transport

The four rules defined by Incoterms 2010 for international trade where transportation is entirely conducted by water are:

**FAS – Free Alongside Ship (named port of shipment)**

The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. Suitable only for maritime transport but **NOT** for multimodal sea transport in [containers](http://en.wikipedia.org/wiki/Intermodal_container) (see *Incoterms 2010*, ICC publication 715). This term is typically used for heavy-lift or bulk cargo.

**FOB –**[Free on Board](http://en.wikipedia.org/wiki/Free_on_Board)**(named port of shipment)**

The seller must load the goods on board the vessel nominated by the buyer. Cost and risk are divided when the goods are actually on board of the vessel (this rule is new!). The seller must clear the goods for export. The term is applicable for maritime and inland waterway transport only but **NOT** for multimodal sea transport in containers (see *Incoterms 2010*, ICC publication 715). The buyer must instruct the seller the details of the vessel and the port where the goods are to be loaded, and there is no reference to, or provision for, the use of a carrier or forwarder. This term has been greatly misused over the last three decades ever since *Incoterms 1980* explained that FCA should be used for container shipments.

**CFR – Cost and Freight (named port of destination)**

Seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the vessel (this rule is new!). Maritime transport only and Insurance for the goods is **NOT** included. This term is formerly known as CNF (C&F).

**CIF – Cost, Insurance and Freight (named port of destination)**

Exactly the same as CFR except that the seller must in addition procure and pay for the insurance. Maritime transport only.

Previous terms from *Incoterms 2000* that were eliminated from *Incoterms 2010*

**DAF – Delivered At Frontier (named place of delivery)**

This term can be used when the goods are transported by rail and road. The seller pays for transportation to the named place of delivery at the frontier. The buyer arranges for customs clearance and pays for transportation from the frontier to his factory. The passing of risk occurs at the frontier.

**DES – Delivered Ex Ship (named port of delivery)**

Where goods are delivered ex ship, the passing of risk does not occur until the ship has arrived at the named port of destination and the goods made available for unloading to the buyer. The seller pays the same freight and insurance costs as he would under a CIF arrangement. Unlike CFR and CIF terms, the seller has agreed to bear not just cost, but also Risk and Title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties, taxes, etc… are for the Buyer. A commonly used term in shipping bulk commodities, such as coal, grain, dry chemicals - - - and where the seller either owns or has chartered, their own vessel.

**DEQ – Delivered Ex Quay (named port of delivery)**

This is similar to DES, but the passing of risk does not occur until the goods have been unloaded at the port of destination.

**DDU – Delivered Duty Unpaid (named place of destination)**

This term means that the seller delivers the goods to the buyer to the named place of destination in the contract of sale. The goods are not cleared for import or unloaded from any form of transport at the place of destination. The buyer is responsible for the costs and risks for the unloading, duty and any subsequent delivery beyond the place of destination. However, if the buyer wishes the seller to bear cost and risks associated with the import clearance, duty, unloading and subsequent delivery beyond the place of destination, then this all needs to be explicitly agreed upon in the contract of sale.

III Legislation of the most developed economies ofthe World

European Union law

**European Union law** (historically called "European Community law") is a body of treaties and legislation, such as Regulations and Directives, which have [direct effect](http://en.wikipedia.org/wiki/Direct_effect) or [indirect effect](http://en.wikipedia.org/wiki/Indirect_effect) on the laws of [European Union](http://en.wikipedia.org/wiki/European_Union) member states. The three sources of European Union law are primary law, secondary law and supplementary law. The main sources of primary law are the [Treaties establishing the European Union](http://en.wikipedia.org/wiki/Treaties_establishing_the_European_Union). Secondary sources include [regulations](http://en.wikipedia.org/wiki/Regulation_(European_Union)) and [directives](http://en.wikipedia.org/wiki/Directive_(European_Union)) which are based on the Treaties. The legislature of the European Union is principally composed of the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) and the [Council of the European Union](http://en.wikipedia.org/wiki/Council_of_the_European_Union), which under the Treaties may establish secondary law to pursue the objective set out in the Treaties.

European Union law is applied by the courts of member states and where the laws of member states provide for lesser rights European Union law can be enforced by the courts of member states. In case of European Union law which should have been transposed into the laws of member states, such as Directives, the [European Commission](http://en.wikipedia.org/wiki/European_Commission) can take proceedings against the member state under the [EC Treaty](http://en.wikipedia.org/wiki/EC_Treaty). The [Court of Justice of the European Union](http://en.wikipedia.org/wiki/Court_of_Justice_of_the_European_Union) is the highest court able to interpret European Union law. Supplementary sources of European Union law including [case law](http://en.wikipedia.org/wiki/Case_law) by the Court of Justice, [international law](http://en.wikipedia.org/wiki/International_law) and [general principles of European Union law](http://en.wikipedia.org/wiki/General_principles_of_European_Union_law).

## Constitutional law

There are three sources of European Union law: primary law, secondary law and supplementary law. The main sources of primary law are the [Treaties establishing the European Union](http://en.wikipedia.org/wiki/Treaties_establishing_the_European_Union) (TEU). Secondary sources are legal instruments based on the Treaties as well as [unilateral](http://en.wikipedia.org/wiki/Unilateral) secondary law and conventions and agreements. Supplementary sources are laws which are not provided for by the TEU, including [case law](http://en.wikipedia.org/wiki/Case_law) by the [Court of Justice of the European Union](http://en.wikipedia.org/wiki/Court_of_Justice_of_the_European_Union), [international law](http://en.wikipedia.org/wiki/International_law) and [general principles of European Union law](http://en.wikipedia.org/wiki/General_principles_of_European_Union_law).[[1]](http://en.wikipedia.org/wiki/European_Union_law#cite_note-0)

### Treaties

The primary law of the EU consists mainly of the founding treaties of the European Union, also known as the TEU and TFEU or [Treaties of the European Union](http://en.wikipedia.org/wiki/Treaties_of_the_European_Union). The Treaties contain formal and substantive provisions, which frame policies of the [European Union institutions](http://en.wikipedia.org/wiki/European_Union_institutions) and determine the division of competences between the European Union and the 27 member states. The TEU establish that European Union law applies to the metropolitan territories of the member states, as well as certain islands and overseas territories, including [Madeira](http://en.wikipedia.org/wiki/Madeira), [the Canaries](http://en.wikipedia.org/wiki/Canary_Islands) and the [French overseas departments](http://en.wikipedia.org/wiki/French_overseas_departments). European Union law also applies in territories where a [member state](http://en.wikipedia.org/wiki/Member_state) is responsible for external relations, for example [Gibraltar](http://en.wikipedia.org/wiki/Gibraltar) and the [Åland islands](http://en.wikipedia.org/wiki/%C3%85land_islands). The TEU allows the [European Council](http://en.wikipedia.org/wiki/European_Council) to make specific provisions for regions, as for example done for [customs](http://en.wikipedia.org/wiki/Customs) matters in Gibraltar and [Saint-Pierre-et-Miquelon](http://en.wikipedia.org/wiki/Saint-Pierre-et-Miquelon). The TEU specifically excludes certain regions, for example the [Faroe Islands](http://en.wikipedia.org/wiki/Faroe_Islands), from the jurisdiction of European Union law. Treaties apply as soon as they enter into force, unless stated otherwise, and are generally concluded for an unlimited period. The [Treaty of Rome](http://en.wikipedia.org/wiki/Treaty_of_Rome) provides that commitments entered into by the member states between themselves before the treaty was signed no longer apply. Since the Treaty of Rome has been signed member states are regarded subject to the general obligation of the principle of cooperation, as stated in the TEU, whereby member states pledge to not take measure which could jeopardise the attainment of the TEU objectives. The [Court of Justice of the European Union](http://en.wikipedia.org/wiki/Court_of_Justice_of_the_European_Union) can interpret the Treaties, but it cannot rule on their validity which is subject to [international law](http://en.wikipedia.org/wiki/International_law). Individuals may rely on primary law in the Court of Justice of the European Union if the Treaty provisions have a [direct effect](http://en.wikipedia.org/wiki/Direct_effect) and they are sufficiently clear, precise and unconditional.[[2]](http://en.wikipedia.org/wiki/European_Union_law#cite_note-europa1-1)

The principle Treaties that form the European Union began with common rules for coal and steel, and then atomic energy, but more complete and formal institutions were established through the [Treaties of Rome 1957](http://en.wikipedia.org/wiki/Treaties_of_Rome_1957) and the [Maastricht Treaty 1992](http://en.wikipedia.org/wiki/Maastricht_Treaty_1992). Minor amendments were made during the 1960s and 1970s.[[3]](http://en.wikipedia.org/wiki/European_Union_law#cite_note-2) Major amending treaties were signed to complete the development of a single, internal market in the [Single European Act 1986](http://en.wikipedia.org/wiki/Single_European_Act_1986), to further the development of a more social Europe in the [Treaty of Amsterdam 1997](http://en.wikipedia.org/wiki/Treaty_of_Amsterdam_1997), and to make minor amendments to the relative power of member states in the EU institutions in the [Treaty of Nice 2001](http://en.wikipedia.org/wiki/Treaty_of_Nice_2001) and the [Treaty of Lisbon 2007](http://en.wikipedia.org/wiki/Treaty_of_Lisbon_2007). Since its establishment, more member states have joined through a series of accession treaties, from the [UK](http://en.wikipedia.org/wiki/UK), [Ireland](http://en.wikipedia.org/wiki/Ireland), [Denmark](http://en.wikipedia.org/wiki/Denmark) and [Norway](http://en.wikipedia.org/wiki/Norway) in 1972 (though Norway did not end up joining), [Greece](http://en.wikipedia.org/wiki/Greece) in 1979, [Spain](http://en.wikipedia.org/wiki/Spain) and [Portugal](http://en.wikipedia.org/wiki/Portugal) 1985, [Austria](http://en.wikipedia.org/wiki/Austria), [Finland](http://en.wikipedia.org/wiki/Finland), [Norway](http://en.wikipedia.org/wiki/Norway) and [Sweden](http://en.wikipedia.org/wiki/Sweden) in 1994 (though again Norway failed to join, because of lack of support in the referendum), the [Czech Republic](http://en.wikipedia.org/wiki/Czech_Republic), [Cyprus](http://en.wikipedia.org/wiki/Cyprus), [Estonia](http://en.wikipedia.org/wiki/Estonia), [Hungary](http://en.wikipedia.org/wiki/Hungary), [Latvia](http://en.wikipedia.org/wiki/Latvia), [Lithuania](http://en.wikipedia.org/wiki/Lithuania), [Malta](http://en.wikipedia.org/wiki/Malta), [Poland](http://en.wikipedia.org/wiki/Poland), [Slovakia](http://en.wikipedia.org/wiki/Slovakia) and [Slovenia](http://en.wikipedia.org/wiki/Slovenia) in 2004, and [Romania](http://en.wikipedia.org/wiki/Romania) and [Bulgaria](http://en.wikipedia.org/wiki/Bulgaria) in 2007. [Greenland](http://en.wikipedia.org/wiki/Greenland) signed a Treaty in 1985 giving it a special status. Norway has remained the only Scandinavian power not to have joined the European Union which can be credited entirely to the Norwegian people.

### Legislatures

The legislature of the European Union is principally composed of the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) and the [Council of the European Union](http://en.wikipedia.org/wiki/Council_of_the_European_Union). European Union treaties allow for the adoption of legislation and other legal acts so as to allow the EU to pursue the objective set out in the treaties. These are secondary European Union law. The treaties have not established any single body as a legislature. Instead legislative power is spread out among the [Institutions of the European Union](http://en.wikipedia.org/wiki/Institutions_of_the_European_Union), although the principal actors are the Council of the European Union (or Council of Ministers), the European Parliament and the [European Commission](http://en.wikipedia.org/wiki/European_Commission). The relative power of a particular institution in the legislative process depends on the legislative procedure used, which in turn depends on the policy area to which the proposed legislation is concerned. In some areas, they participate equally in the making of EU law, in others the system is dominated by the Council. Which areas are subject to which procedure is laid down in the [treaties of the European Union](http://en.wikipedia.org/wiki/Treaties_of_the_European_Union).

The Commission, Council and Parliament can all create secondary law, which includes unilateral acts and agreements by the [Legislature of the European Union](http://en.wikipedia.org/wiki/Legislature_of_the_European_Union). Unilateral acts can be done under Article 288 of the TFEU, including [regulations](http://en.wikipedia.org/wiki/Regulation_(European_Union)), [directives](http://en.wikipedia.org/wiki/Directive_(European_Union)), decisions, opinions and recommendations. Unilateral acts not falling under Article 288 TFEU are *atypical* acts such as communications and recommendations, and white and green papers. Agreements can include international agreements, signed by the European Union, agreements between Member States; and inter-institutional agreements, for example between [European Union institutions](http://en.wikipedia.org/wiki/European_Union_institutions).[[2]](http://en.wikipedia.org/wiki/European_Union_law#cite_note-europa1-1)

[Directives](http://en.wikipedia.org/wiki/Directive_(European_Union)), [regulations](http://en.wikipedia.org/wiki/Regulation_(European_Union)), [decisions](http://en.wikipedia.org/wiki/Decision_(European_Union)), [recommendations](http://en.wikipedia.org/wiki/Recommendation_(European_Union)) and opinions constitute European Union legislation, which must have a legal basis in specific Treaty articles, or primary European law. Directives set (sometimes quite specific) objectives but leave the implementation to the EU's member states. Regulations are directly applicable to member states and take effect without the need for implementing measures.

### European Court of Justice

The Court of Justice of the European Union is established through article 19 of the [Maastricht Treaty](http://en.wikipedia.org/wiki/Maastricht_Treaty) and includes the Court of Justice, the General Court and specialised courts. Its duty is to “ensure that in the interpretation and application of the Treaties the law is observed”. The Court of Justice consists of one judge from each European Union member state, and the General Court includes at least one judge from each member state. Judges are appointed for a renewable six year term. It is the role of the Court of Justice to rule, in accordance with the Treaties, on cases brought by a member state, a European Union institution or a legal person. The Court of Justice can also issue preliminary rulings, at the request of a member state’s courts or tribunals, on the interpretation of European Union law or the validity of acts by European Union institutions. The Court of Justice can rule in other cases if they are provided for in the Treaties.[[4]](http://en.wikipedia.org/wiki/European_Union_law#cite_note-3)

Supplementary sources of EU law are unmodified sources, including [Court of Justice of the European Union](http://en.wikipedia.org/wiki/Court_of_Justice_of_the_European_Union) case law, international law and the general principles of law. Supplementary sources are generally of judicial origin and are used by the Court of Justice of the European Union in cases where the primary and/or secondary legislation leave gaps or do not settle the issue. Since the 1970s [fundamental rights](http://en.wikipedia.org/wiki/Fundamental_rights), recognised as [general principles of European Union law](http://en.wikipedia.org/wiki/General_principles_of_European_Union_law), have become part of primary legislation in European Union law. The European Union and its member states must abide by [international law](http://en.wikipedia.org/wiki/International_law), including its treaties and [customary law](http://en.wikipedia.org/wiki/Customary_law), and has particularly influenced the development of general principles of European Union law. However, the Court of Justice of the European Union can excluded certain principles of international law that it considers incompatible with the structure of the European Union, such as the principle of [reciprocity](http://en.wikipedia.org/wiki/Reciprocity_(international_relations)) in the fulfilment of state obligations.[[5]](http://en.wikipedia.org/wiki/European_Union_law#cite_note-4)

European Union competition law

**European Union competition law** arose out of the desire to ensure that the efforts of government could not be distorted by corporations abusing their [market power](http://en.wikipedia.org/wiki/Market_power). Hence under the treaties are provisions to ensure that free competition prevails, rather than cartels and monopolies sharing out markets and fixing prices. [Competition law](http://en.wikipedia.org/wiki/Competition_law) in the European Union is largely similar and inspired by United States [antitrust](http://en.wikipedia.org/wiki/Antitrust). Four main policy areas include:

* [Cartels](http://en.wikipedia.org/wiki/Cartel), or control of [collusion](http://en.wikipedia.org/wiki/Collusion) and other [anti-competitive practices](http://en.wikipedia.org/wiki/Anti-competitive_practices) that affect the EU (or, since 1994, the [European Economic Area](http://en.wikipedia.org/wiki/European_Economic_Area)). This is covered under Articles 101 of the [Treaty on the Functioning of the European Union](http://en.wikipedia.org/wiki/Treaty_on_the_Functioning_of_the_European_Union) (TFEU).
* [Monopolies](http://en.wikipedia.org/wiki/Monopoly), or preventing the abuse of firms' dominant market positions. This is governed by Article 102 TFEU. This article also gives rise to the [Commission's](http://en.wikipedia.org/wiki/European_Commission) authority under the next area,
* [Mergers](http://en.wikipedia.org/wiki/Mergers_and_acquisitions), control of proposed mergers, acquisitions and joint ventures involving companies that have a certain, defined amount of turnover in the EU/EEA. This is governed by the Council [Regulation](http://en.wikipedia.org/wiki/Regulation_(European_Union)) 139/2004 EC (the Merger Regulation).[[1]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-0)
* [State aid](http://en.wikipedia.org/wiki/State_aid), control of direct and indirect aid given by [Member States of the European Union](http://en.wikipedia.org/wiki/Member_State_of_the_European_Union) to companies. Covered under Article 107 of the [Treaty on the Functioning of the European Union](http://en.wikipedia.org/wiki/Treaty_on_the_Functioning_of_the_European_Union).(TFEU)

This last point is a unique characteristic of the EU competition law regime. As the EU is made up of independent [member states](http://en.wikipedia.org/wiki/List_of_European_Union_member_states), both competition policy and the creation of the European [single market](http://en.wikipedia.org/wiki/Single_market) could be rendered ineffective were member states free to support national companies as they saw fit. Primary authority for applying EU competition law rests with [European Commission](http://en.wikipedia.org/wiki/European_Commission) and its Directorate General for Competition, although state aids in some sectors, such as transport, are handled by other Directorates General. On 1 May 2004 a decentralised regime for antitrust came into force to increase application of EU competition law by national competition authorities and national courts.

### State aid

Article 107 TFEU, similar to Article 101 TFEU, lays down a general rule that the state may not aid or subsidise private parties in distortion of free competition, but has the power to approve exceptions for specific projects addressing natural disasters or regional development.

The general definition of State Aid is set out in Article 107(1) of the TFEU.[[45]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-44)

Measures which fall within the definition of State Aid are unlawful unless provided under an exemption or notified.[[46]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-45)

For there to be State Aid under Article 107(1) of the TFEU each of the following must be present:

There is the transfer of [Member State](http://en.wikipedia.org/wiki/Member_State) resources;

Which creates a selective advantage for one or more business undertakings;

That has the potential to distort trade between in the relevant business market; and

Affects trade between the Member States.

Where all of these criteria are met, State Aid is present and the support shall be unlawful unless provided under a European Commission exemption [[47]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-46)

The [European Commission](http://en.wikipedia.org/wiki/European_Commission) applies a number of exemptions which enable aid to be lawful.[[48]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-47) The [European Commission](http://en.wikipedia.org/wiki/European_Commission) will also approve State Aid cases under the notification procedure.[[49]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-48)

State Aid law is an important issue for all public sector organisations and recipients of public sector support in the [European Union](http://en.wikipedia.org/wiki/European_Union) [[50]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-49) because unlawful aid can be clawed back with compound interest.

There is some scepticism about the effectiveness of competition law in achieving economic progress and its interference with the provision of public services. France's president [Nicolas Sarkozy](http://en.wikipedia.org/wiki/Nicolas_Sarkozy) has called for the reference in the preamble to the [Treaty of the European Union](http://en.wikipedia.org/wiki/Treaty_of_the_European_Union) to the goal of "free and undistorted competition" to be removed.[[51]](http://en.wikipedia.org/wiki/European_Union_competition_law#cite_note-50) Though competition law itself would have remained unchanged, other goals of the preamble—which include "full employment" and "social progress"—carry the perception of greater specificity, and as being ends in themselves, while "free competition" is merely a means.

Directive (European Union)

A **directive** is a [legislative act](http://en.wikipedia.org/wiki/Legislation) of the [European Union](http://en.wikipedia.org/wiki/European_Union),[[1]](http://en.wikipedia.org/wiki/Directive_(European_Union)#cite_note-0) which requires [member states](http://en.wikipedia.org/wiki/Member_State_of_the_European_Union) to achieve a particular result without dictating the means of achieving that result. It can be distinguished from [regulations](http://en.wikipedia.org/wiki/Regulation_(European_Union)) which are self-executing and do not require any implementing measures. Directives normally leave member states with a certain amount of leeway as to the exact rules to be adopted. Directives can be adopted by means of a variety of [legislative procedures](http://en.wikipedia.org/wiki/European_Union_legislative_procedure) depending on their subject matter.

## Legal effect

Directives are binding only on the member states to whom they are addressed, which can be just one member state or a group of them. In practice, however, with the exception of directives related to the [Common Agricultural Policy](http://en.wikipedia.org/wiki/Common_Agricultural_Policy), directives are addressed to all member states.

### Implementation

When adopted, directives give member states a timetable for the implementation of the intended outcome. Occasionally, the laws of a member state may already comply with this outcome, and the state involved would be required only to keep its laws in place. More commonly, member states are required to make changes to their laws (commonly referred to as [transposition](http://en.wikipedia.org/wiki/Transposition_(law))) in order for the directive to be implemented correctly. This is done in approximately the 99% of the cases [[4]](http://en.wikipedia.org/wiki/Directive_(European_Union)#cite_note-3). If a member state fails to pass the required national legislation, or if the national legislation does not adequately comply with the requirements of the directive, the [European Commission](http://en.wikipedia.org/wiki/European_Commission) may initiate legal action against the member state in the [European Court of Justice](http://en.wikipedia.org/wiki/European_Court_of_Justice). This may also happen when a member state has transposed a directive in theory but has failed to abide by its provisions in practice. On 1 May 2008, 1,298 such cases open before the Court.

### Direct effect

Notwithstanding the fact that directives were not originally thought to be binding before they were implemented by member states, the European Court of Justice developed the doctrine of [direct effect](http://en.wikipedia.org/wiki/Direct_effect) where unimplemented or badly implemented directives can actually have direct legal force. Also, in [Francovich v. Italy](http://en.wikipedia.org/wiki/Francovich_principle), the court found that member states could be liable to pay damages to individuals and companies who had been adversely affected by the non-implementation of a directive.

Treaty of Lisbon

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| [Tratado de Lisboa pt.svg](http://en.wikipedia.org/wiki/File:Tratado_de_Lisboa_pt.svg) |

The **Treaty of Lisbon** or **Lisbon Treaty** (initially known as the **Reform Treaty**) is an [international agreement](http://en.wikipedia.org/wiki/Treaty) that amends the two treaties which form the constitutional basis of the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU). The Lisbon Treaty was signed by the [EU member states](http://en.wikipedia.org/wiki/Member_State_of_the_European_Union) on 13 December 2007, and entered into force on 1 December 2009. It amends the [Maastricht Treaty](http://en.wikipedia.org/wiki/Maastricht_Treaty) (also known as the Treaty on European Union) and the [Treaty establishing the European Community](http://en.wikipedia.org/wiki/Treaty_of_Rome) (TEC; also known as the Treaty of Rome). In this process, the Rome Treaty was renamed to the [Treaty on the Functioning of the European Union](http://en.wikipedia.org/wiki/Treaty_on_the_Functioning_of_the_European_Union) (TFEU).

Prominent changes included the [move](http://en.wikipedia.org/wiki/Voting_in_the_Council_of_the_European_Union#Treaty_of_Lisbon) from unanimity to qualified majority voting in [several](http://en.wikipedia.org/wiki/Voting_in_the_Council_of_the_European_Union#Policy_areas) policy areas in the [Council of Ministers](http://en.wikipedia.org/wiki/Council_of_the_European_Union), a change in calculating such a majority to a new [*double majority*](http://en.wikipedia.org/wiki/Double_majority#European_Union), a more powerful [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) forming a bicameral legislature alongside the Council of ministers under the [ordinary legislative procedure](http://en.wikipedia.org/wiki/Ordinary_legislative_procedure#Ordinary_legislative_procedure), a consolidated [legal personality](http://en.wikipedia.org/wiki/Legal_personality) for the EU and the creation of a long-term [President of the European Council](http://en.wikipedia.org/wiki/President_of_the_European_Council) and a [High Representative of the Union for Foreign Affairs and Security Policy](http://en.wikipedia.org/wiki/High_Representative_of_the_Union_for_Foreign_Affairs_and_Security_Policy). The Treaty also made the Union's bill of rights, the [Charter of Fundamental Rights](http://en.wikipedia.org/wiki/Charter_of_Fundamental_Rights_of_the_European_Union), legally binding.

The stated aim of the treaty was "to complete the process started by the [Treaty of Amsterdam](http://en.wikipedia.org/wiki/Treaty_of_Amsterdam) [1997] and by the [Treaty of Nice](http://en.wikipedia.org/wiki/Treaty_of_Nice) [2001] with a view to enhancing the efficiency and democratic legitimacy of the Union and to improving the coherence of its action."[[2]](http://en.wikipedia.org/wiki/Treaty_of_Lisbon#cite_note-1) Opponents of the Treaty of Lisbon, such as former Danish [Member of the European Parliament](http://en.wikipedia.org/wiki/Member_of_the_European_Parliament) (MEP) [Jens-Peter Bonde](http://en.wikipedia.org/wiki/Jens-Peter_Bonde), argued that it would centralize the EU,[[3]](http://en.wikipedia.org/wiki/Treaty_of_Lisbon#cite_note-2) and weaken democracy by 'moving power away' from national electorates.[[4]](http://en.wikipedia.org/wiki/Treaty_of_Lisbon#cite_note-3) Supporters argue that it brings in more checks and balances into the EU system, with stronger powers for the European Parliament and a new role for national parliaments.

Negotiations to modify EU institutions began in 2001, resulting first in the [Treaty establishing a Constitution for Europe](http://en.wikipedia.org/wiki/Treaty_establishing_a_Constitution_for_Europe), which would have repealed the pre-existing European treaties and replaced them with a "constitution". Although ratified by a majority of Member States, this was abandoned after being rejected by French and Dutch voters in 2005. After a "period of reflection", Member States agreed instead to maintain the pre-existing treaties, but to amend them, salvaging a number of the reforms that had been envisaged in the constitution. An amending "reform" treaty was drawn up and signed in Lisbon in 2007. It was originally intended to have been ratified by all member states by the end of 2008. This timetable failed, primarily due to the [initial rejection](http://en.wikipedia.org/wiki/Twenty-eighth_Amendment_of_the_Constitution_Bill,_2008_(Ireland)) of the Treaty in 2008 by the [Irish](http://en.wikipedia.org/wiki/Republic_of_Ireland) electorate, a decision which was reversed in a [second referendum](http://en.wikipedia.org/wiki/Twenty-eighth_Amendment_of_the_Constitution_of_Ireland) in 2009 after Ireland secured a number of concessions related to the treaty.

## Notable amendments

### Central Bank

The European Central Bank gained the official status of being an EU institution, and the [European Council](http://en.wikipedia.org/wiki/European_Council) was given the right to appoint [presidents of the European Central Bank](http://en.wikipedia.org/wiki/President_of_the_European_Central_Bank) through a [qualified majority vote](http://en.wikipedia.org/wiki/Voting_in_the_Council_of_the_European_Union). On a related topic, the [euro](http://en.wikipedia.org/wiki/Euro) became the official currency of the Union (though not affecting opt-outs or the process of [Eurozone enlargement](http://en.wikipedia.org/wiki/Enlargement_of_the_eurozone)).

### Court of Justice of the European Union

The **Court of Justice of the European Union (CJEU)** is the [institution](http://en.wikipedia.org/wiki/Institutions_of_the_European_Union) of the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU) which encompasses the whole judiciary. Seated in [Luxembourg](http://en.wikipedia.org/wiki/Luxembourg), it has three sub-courts; the [European Court of Justice](http://en.wikipedia.org/wiki/European_Court_of_Justice), the [General Court](http://en.wikipedia.org/wiki/General_Court_(European_Union)) and the [Civil Service Tribunal](http://en.wikipedia.org/wiki/European_Union_Civil_Service_Tribunal).

The institution was originally established in 1952 as the *Court of Justice of the European Coal and Steel Communities* (as of 1958 the *Court of Justice of the European Communities*). With the entry into force of the [Treaty of Lisbon](http://en.wikipedia.org/wiki/Treaty_of_Lisbon) in 2009, the court changed to its current name and comprises formally the *Court of Justice* alongside its two subordinate chambers: the *General Court* (formerly the Court of First Instance) and the *Civil Service Tribunal*.

Its mission is to ensure that "the law is observed" "in the interpretation and application" of the Treaties. The Court reviews the legality of the acts of the institutions of the European Union; ensures that the Member States comply with obligations under the Treaties; and interprets European Union law at the request of the national courts and tribunals.

The Court constitutes the judicial authority of the European Union and, in cooperation with the courts and tribunals of the Member States, it ensures the uniform application and interpretation of European Union law.

The Court of Justice of the European Union consists of three courts:

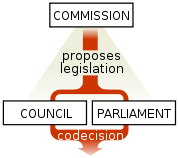
* The [European Court of Justice](http://en.wikipedia.org/wiki/European_Court_of_Justice) (created in 1952; formally the *Court of Justice*)
* The [General Court](http://en.wikipedia.org/wiki/General_Court_(European_Union)) (created in 1988; formerly the *Court of First Instance*)
* The [Civil Service Tribunal](http://en.wikipedia.org/wiki/European_Union_Civil_Service_Tribunal) (created in 2004)

Since their establishment, approximately 15,000 judgements have been delivered by the three courts.

### Parliament

The **European Parliament** (abbreviated as **Europarl** or the **EP**) is the [directly elected](http://en.wikipedia.org/wiki/Direct_election) parliamentary [institution](http://en.wikipedia.org/wiki/Institutions_of_the_European_Union) of the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU). Together with the [Council of the European Union](http://en.wikipedia.org/wiki/Council_of_the_European_Union) (the Council) and the [European Commission](http://en.wikipedia.org/wiki/European_Commission), it exercises the legislative function of the EU and it has been described as one of the most powerful legislatures in the world.[[2]](http://en.wikipedia.org/wiki/European_Parliament#cite_note-Farrell_Powerful-1) The Parliament is currently composed of 754 [Members of the European Parliament](http://en.wikipedia.org/wiki/Member_of_the_European_Parliament), who represent the second largest democratic electorate in the world (after the [Parliament of India](http://en.wikipedia.org/wiki/Parliament_of_India)) and the largest trans-national democratic electorate in the world (375 million eligible voters in 2009).[[3]](http://en.wikipedia.org/wiki/European_Parliament#cite_note-2) [[4]](http://en.wikipedia.org/wiki/European_Parliament#cite_note-3) [[5]](http://en.wikipedia.org/wiki/European_Parliament#cite_note-18_new_MEPs_take_their_seats-4)

According to the Lisbon Treaty, the legislative power of the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) increases, as the [codecision procedure](http://en.wikipedia.org/wiki/Codecision_procedure) with the Council of the EU is extended to almost all areas of policy. This procedure is slightly modified and renamed *ordinary legislative procedure*.

[](http://en.wikipedia.org/wiki/File:European_Union_legislative_triangle.svg)

[magnify-clip](http://en.wikipedia.org/wiki/File:European_Union_legislative_triangle.svg)

[Codecision](http://en.wikipedia.org/wiki/Codecision_procedure) will be used in new policy areas, increasing the power of the Parliament.

In the few remaining areas, called "special legislative procedures", Parliament now has either the right of consent to a Council of the EU measure, or vice-versa, except in the few cases where the old [Consultation procedure](http://en.wikipedia.org/wiki/Consultation_procedure) still applies, wherein the Council of the EU will only need to consult the European Parliament before voting on the Commission proposal. Council is then not bound by the Parliament's position but only by the obligation to consult it. Parliament would need to be consulted again if the Council of ministers deviated too far from the initial proposal.

The Commission will have to submit each proposed [budget of the European Union](http://en.wikipedia.org/wiki/Budget_of_the_European_Union) directly to Parliament, which must approve the budget in its entirety.

The Treaty changes the way in which [MEP](http://en.wikipedia.org/wiki/Member_of_the_European_Parliament) seats are apportioned among member states. Rather than setting out a precise number (as it was the case in every previous treaty), the Treaty of Lisbon gives the power to the Council of the EU, acting unanimously on the initiative of the Parliament and with its consent, to adopt a decision fixing the number of MEPs for each member state. Moreover the treaty provides for the number of MEPs to be digressively proportional to the number of citizens of each member state. A draft decision fixing the apportionment of MEPs was annexed to the treaty itself and had Lisbon been in force at the time of [2009 European Parliament elections](http://en.wikipedia.org/wiki/2009_European_Parliament_elections) the apportionment would have been:[[36]](http://en.wikipedia.org/wiki/Treaty_of_Lisbon#cite_note-35)

The number of MEPs will be limited to 750, in addition to the [President of the Parliament](http://en.wikipedia.org/wiki/President_of_the_European_Parliament). Additionally, the Treaty of Lisbon will reduce the maximum number of MEPs from a member state from 99 to 96 (affects Germany) and increases the minimal number from 5 to 6 (affects Malta).

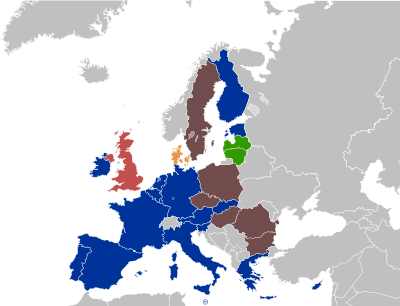
**President of the European Commission**

The **President of the European Commission** is the head of the [European Commission](http://en.wikipedia.org/wiki/European_Commission) ― the executive branch of the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU) ― the most powerful officeholder in the EU.[[2]](http://en.wikipedia.org/wiki/President_of_the_European_Commission#cite_note-Hix_Fix-1) The President is responsible for allocating portfolios to members of the Commission and can reshuffle or dismiss them if needed. He determines the Commission's policy agenda and all the legislative proposals it produces (the Commission is the only body that can propose [EU laws](http://en.wikipedia.org/wiki/European_Union_law)).

The Commission President also represents the EU abroad, although he does this alongside the [President of the European Council](http://en.wikipedia.org/wiki/President_of_the_European_Council) and, at foreign minister's level, the [High Representative](http://en.wikipedia.org/wiki/High_Representative) (who sits in his Commission as Vice President). However the President, unlike a normal [head of government](http://en.wikipedia.org/wiki/Head_of_government), does not form foreign policy, command troops or raise taxes as these are largely outside the remit of the EU.

The post was established in 1958 and is elected by the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament), on a proposal of the [European Council](http://en.wikipedia.org/wiki/European_Council) for five year terms. Once elected, he, along with his Commission, is responsible to Parliament which can censure him. The current President is [José Manuel Barroso](http://en.wikipedia.org/wiki/Jos%C3%A9_Manuel_Barroso), who took office in October 2004. He is a member of the [European People's Party](http://en.wikipedia.org/wiki/European_People%27s_Party) (EPP) and is the former [Prime Minister of Portugal](http://en.wikipedia.org/wiki/Prime_Minister_of_Portugal). Barroso is the eleventh President and in 2009 was re-elected for a further five years. His vice president, as of 2010, is [High Representative](http://en.wikipedia.org/wiki/High_Representative) [Baroness Catherine Ashton](http://en.wikipedia.org/wiki/Catherine_Ashton).

Economic and Monetary Union of the European Union

[](http://en.wikipedia.org/wiki/File:Europ%C3%A4ische_Wirtschafts-_und_W%C3%A4hrungsunion-2011.svg)

[magnify-clip](http://en.wikipedia.org/wiki/File:Europ%C3%A4ische_Wirtschafts-_und_W%C3%A4hrungsunion-2011.svg)

The EMU in the year 2011.

The **Economic and Monetary Union** (**EMU**)[[1]](http://en.wikipedia.org/wiki/Economic_and_Monetary_Union_of_the_European_Union#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Economic_and_Monetary_Union_of_the_European_Union#cite_note-1) is an [umbrella term](http://en.wikipedia.org/wiki/Umbrella_term) for the group of policies aimed at converging the economies of members of the [European Union](http://en.wikipedia.org/wiki/European_Union) in three stages so as to allow them to adopt a single currency, the euro. As such, it is largely synonymous with the [eurozone](http://en.wikipedia.org/wiki/Eurozone).

All member states of the [European Union](http://en.wikipedia.org/wiki/European_Union) are expected to participate in the EMU. The [Copenhagen criteria](http://en.wikipedia.org/wiki/Copenhagen_criteria) is the current set of conditions of entry for states wanting to join the EU. It contains the requirements that need to be fulfilled and the time framework within which this must be done in order for a country to join the monetary union.

An important element of this is the [European Exchange Rate Mechanism](http://en.wikipedia.org/wiki/European_Exchange_Rate_Mechanism) ("ERM II"), in which candidate currencies demonstrate economic convergence by maintaining limited deviation from their target rate against the euro.

All member states, except Denmark, Sweden and the United Kingdom, have committed themselves by treaty to join EMU. [Seventeen member states](http://en.wikipedia.org/wiki/Eurozone) of the European Union, including, most recently, Estonia, have entered the third stage and have adopted the euro as their currency. Denmark, Latvia and Lithuania are the current participants in the exchange rate mechanism.

Of the pre-2004 members, the United Kingdom and Sweden have not joined ERM II and Denmark remains in ERM without proceeding to the third stage. The five remaining (post-2004) states have yet to achieve sufficient convergence to participate. These ten EU members continue to use [their own currencies](http://en.wikipedia.org/wiki/Currencies_of_the_European_Union).

Single market

A **single market** is a type of [trade bloc](http://en.wikipedia.org/wiki/Trade_bloc) which is composed of a [free trade area](http://en.wikipedia.org/wiki/Free_trade_area) (for [goods](http://en.wikipedia.org/wiki/Good_(economics))) with common policies on product regulation, and [freedom of movement](http://en.wikipedia.org/wiki/Freedom_of_movement) of the [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) ([capital](http://en.wikipedia.org/wiki/Capital_(economics)) and [labour](http://en.wikipedia.org/wiki/Labour_(economics))) and of [enterprise](http://en.wikipedia.org/wiki/Capitalism) and [services](http://en.wikipedia.org/wiki/Service_(economics)). The goal is that the movement of capital, labour, goods, and services between the members is as easy as within them.[[1]](http://en.wikipedia.org/wiki/Single_market#cite_note-0) The physical (borders), technical (standards) and fiscal (taxes) barriers among the member states are removed to the maximum extent possible. These barriers obstruct the freedom of movement of the four factors of production.

A **common market** is a first stage towards a single market, and may be limited initially to a free trade area with relatively free movement of capital and of services, but not so advanced in reduction of the rest of the [trade barriers](http://en.wikipedia.org/wiki/Trade_barrier).

The [European Economic Community](http://en.wikipedia.org/wiki/European_Economic_Community) was the first example of a both common and single market, but it was an [economic union](http://en.wikipedia.org/wiki/Economic_union) since it had additionally a [customs union](http://en.wikipedia.org/wiki/Customs_union).

Benefits and costs

A single market has many benefits. With full freedom of movement for all the factors of production between the member countries, the factors of production become more efficiently allocated, further increasing productivity.

For both business within the market and consumers, a single market is a very competitive environment, making the existence of monopolies more difficult. This means that inefficient companies will suffer a loss of market share and may have to close down. However, efficient firms can benefit from economies of scale, increased competitiveness and lower costs, as well as expect profitability to be a result. Consumers are benefited by the single market in the sense that the competitive environment brings them cheaper products, more efficient providers of products and also increased choice of products. What is more, businesses in competition will innovate to create new products; another benefit for consumers.

Transition to a single market can have short term negative impact on some sectors of a national economy due to increased international competition. Enterprises that previously enjoyed [national market protection](http://en.wikipedia.org/wiki/Protectionism) and national [subsidy](http://en.wikipedia.org/wiki/Subsidy) (and could therefore continue in business despite falling short of international performance benchmarks) may struggle to survive against their more efficient peers, even for its traditional markets. Ultimately, if the enterprise fails to improve its organization and methods, it will fail. The consequence may be unemployment or migration.

List of single markets

*Every*[*Economic union*](http://en.wikipedia.org/wiki/Economic_union)*and*[*Economic and monetary union*](http://en.wikipedia.org/wiki/Economic_and_monetary_union)*has also a****Common market***

* [Canada](http://en.wikipedia.org/wiki/Provinces_and_territories_of_Canada) – [Agreement on Internal Trade](http://en.wikipedia.org/wiki/Canadian_Agreement_on_Internal_Trade) (AIT)
* [South Asian Free Trade Area](http://en.wikipedia.org/wiki/South_Asian_Free_Trade_Area) (SAFTA)
* [European Free Trade Association](http://en.wikipedia.org/wiki/European_Free_Trade_Association) (EFTA)
* [European Economic Area](http://en.wikipedia.org/wiki/European_Economic_Area) (EEA)
* [Switzerland – European Union](http://en.wikipedia.org/wiki/Switzerland_%E2%80%93_European_Union_relations#Treaties)[[2]](http://en.wikipedia.org/wiki/Single_market#cite_note-1)

Additionally the [autonomous](http://en.wikipedia.org/wiki/List_of_autonomous_areas_by_country) and [dependent](http://en.wikipedia.org/wiki/Dependent_territory) territories, such as some of the [EU member state special territories](http://en.wikipedia.org/wiki/Special_Member_State_territories_and_the_European_Union), are sometimes treated as separate [customs territory](http://en.wikipedia.org/wiki/Customs_territory) from their mainland state or have varying arrangements of formal or de-facto [customs union](http://en.wikipedia.org/wiki/Customs_union), common market and [currency union](http://en.wikipedia.org/wiki/Currency_union) (or combinations thereof) with the mainland and in regards to third countries trough the [trade pacts](http://en.wikipedia.org/wiki/Trade_pact) signed by the mainland state.[[3]](http://en.wikipedia.org/wiki/Single_market#cite_note-2)

Internal Market

The [European Union](http://en.wikipedia.org/wiki/European_Union)'s (EU) **internal market** (sometimes known as the single market, formerly the common market) seeks to guarantee the free movement of [goods](http://en.wikipedia.org/wiki/Good_(economics)), [capital](http://en.wikipedia.org/wiki/Capital_(economics)), [services](http://en.wikipedia.org/wiki/Service_(economics)), and [people](http://en.wikipedia.org/wiki/Freedom_of_movement_for_workers) – the EU's "four freedoms" – within the [EU's 27 member states](http://en.wikipedia.org/wiki/Member_State_of_the_European_Union).[[1]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-Europa_Single_Market-0)

The internal market is intended to be conducive to increased [competition](http://en.wikipedia.org/wiki/Competition_(economics)), increased [specialisation](http://en.wikipedia.org/wiki/Division_of_labour), larger [economies of scale](http://en.wikipedia.org/wiki/Economies_of_scale), allows goods and [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) to move to the area where they are most valued, thus improving the efficiency of the allocation of resources.

It is also intended to drive economic integration whereby the once separate economies of the member states become integrated within a single EU wide economy. Half of the trade in goods within the EU is covered by legislation harmonised by the EU.[[2]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-Europa_Single_Market_G-1)

The creation of the internal market as a seamless, [single market](http://en.wikipedia.org/wiki/Single_market) is an ongoing process, with the integration of the service industry still containing gaps.[[3]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-2) It also has an increasing international element, with the market represented as one in international trade negotiations. Notably, the internal market is open to three non-EU states via the [European Economic Area](http://en.wikipedia.org/wiki/European_Economic_Area).

History

Two of the original core objectives of the [European Economic Community](http://en.wikipedia.org/wiki/European_Economic_Community) (EEC) were the development of a common market offering free movement of goods, service, people and capital (see below). Free movement of goods was established in principle through the [customs union](http://en.wikipedia.org/wiki/European_Union_Customs_Union) between its then-[six member states](http://en.wikipedia.org/wiki/Inner_six).

However the EEC struggled to enforce a single market due to the absence of strong decision making structures. It was difficult to remove intangible barriers with mutual recognition of standards and common regulations due to protectionist attitudes.

In the 1980s, when the economy of the EEC began to lag behind the rest of the developed world, the [Delors Commission](http://en.wikipedia.org/wiki/Delors_Commission) took the initiative to attempt to relaunch the common market, publishing a White Paper in 1985 identifying 300 measures to be addressed in order to complete a single market. The White Paper which was well received and led to the adoption of the [Single European Act](http://en.wikipedia.org/wiki/Single_European_Act), a treaty which reformed the decision making mechanisms of the EEC and set a deadline of 31 December 1992 for the completion of a single market. In the end, it was launched on 1 January 1993.[[4]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-3)

The new approach, pioneered by the Delors Commission, combined positive and negative integration, relying upon minimum rather than exhaustive harmonisation. Negative integration consists of prohibitions imposed on member states of discriminatory behaviour and other restrictive practices. Positive integration consists in approximation of laws and standards. Especially important (and controversial) in this respect is the adoption of harmonising legislation under Article 114 of the TFEU.

The Commission also relied upon the [European Court of Justice](http://en.wikipedia.org/wiki/ECJ)'s *Cassis de Dijon*[[5]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-4) jurisprudence, under which member states were obliged to recognise goods which had been legally produced in another member state, unless the member state could justify the restriction by reference to a mandatory requirement. Harmonisation would only be used to overcome barriers created by trade restrictions which survived the *Cassis* mandatory requirements test, and to ensure essential standards where there was a risk of a [race to the bottom](http://en.wikipedia.org/wiki/Race_to_the_bottom). Thus harmonisation was largely used to ensure basic health and safety standards were met.

By 1992 about 90% of the issues had been resolved [[6]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-EP-5) and in the same year the [Maastricht Treaty](http://en.wikipedia.org/wiki/Maastricht_Treaty) set about to create [Economic and Monetary Union](http://en.wikipedia.org/wiki/Economic_and_Monetary_Union) as the next stage of integration. Work on freedom for services did take longer, and was the last freedom to be implemented, mainly through the [Posting of Workers Directive](http://en.wikipedia.org/wiki/Posted_Workers_Directive) (adopted in 1996)[[7]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-Directive_96.2F71.2FEC-6) and the [Directive on services in the internal market](http://en.wikipedia.org/wiki/Directive_on_services_in_the_internal_market) (adopted in 2006).[[8]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-Directive_2006.2F123.2FEC-7)

In 1997 the [Amsterdam Treaty](http://en.wikipedia.org/wiki/Amsterdam_Treaty) abolished physical barriers across the internal market by incorporating the [Schengen Area](http://en.wikipedia.org/wiki/Schengen_Area) within the competences of the EU. The [Schengen Agreement](http://en.wikipedia.org/wiki/Schengen_Agreement) implements the abolition of border controls between most member states, common rules on visas, and police and judicial cooperation.[[9]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-8)

Even as the [Lisbon Treaty](http://en.wikipedia.org/wiki/Lisbon_Treaty) came into force in 2009 however, some areas pertaining parts of the four freedoms (especially in the field of services) had not yet been completely opened. Those, along with further work on the economic and monetary union, would see the EU move further to a *European Home Market*.[[6]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-EP-5)

## Free movement of capital

Free movement of capital is intended to permit movement of investments such as property purchases and buying of shares between countries.[[22]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-Europa_Single_Market_C-21) Until the drive towards [Economic and Monetary Union](http://en.wikipedia.org/wiki/Economic_and_monetary_union) the development of the capital provisions had been slow. Post-Maastricht there has been a rapidly developing corpus of ECJ judgements regarding this initially neglected freedom. The free movement of capital is unique in that it is a goal of the EU to pursue a liberal capital regime with third countries.

Capital within the EU may be transferred in any amount from one country to another. All intra-EU transfers in [euro](http://en.wikipedia.org/wiki/Euro) are considered as domestic payments and bear the corresponding domestic transfer costs.[[23]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-22) This includes all member States of the EU, even those outside the [eurozone](http://en.wikipedia.org/wiki/Eurozone) providing the transactions are carried out in euro.[[24]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-23) Credit/debit card charging and ATM withdrawals within the Eurozone are also charged as domestic, however paper-based payment orders, like cheques, have not been standardised so these are still domestic-based. The ECB has also set up a [clearing system](http://en.wikipedia.org/wiki/Clearing_(finance)), [TARGET](http://en.wikipedia.org/wiki/TARGET), for large euro transactions.[[25]](http://en.wikipedia.org/wiki/Internal_Market#cite_note-24)

Solvit

The **Solvit** network is a body funded by the [European Commission](http://en.wikipedia.org/wiki/European_Commission) to assist citizens to ascertain their EU rights in cases where a dispute has risen between a citizen and an official body of a [Member state of the European Union](http://en.wikipedia.org/wiki/Member_state_of_the_European_Union). There is a Solvit centre in every member state (as well as in the EEA Member States Norway, Iceland and Liechtenstein).

Budget of the European Union

The [European Union](http://en.wikipedia.org/wiki/European_Union) has a [budget](http://en.wikipedia.org/wiki/Budget) to pay for its [administration](http://en.wikipedia.org/wiki/Administration_(government)), including a [parliament](http://en.wikipedia.org/wiki/European_Parliament), [executive branch](http://en.wikipedia.org/wiki/European_Commission), and [judiciary](http://en.wikipedia.org/wiki/European_Court_of_Justice) that are distinct from those of the member states. These arms administer the application of treaties, laws and agreements between the member states and their expenditure on common policies throughout the Union.

To pay for this, the EU had an agreed budget of €120.7 billion for the year 2007 and €864.3 billion for the period 2007–2013,[[1]](http://en.wikipedia.org/wiki/Budget_of_the_European_Union#cite_note-0) representing 1.10% and 1.05% of the EU-27's [GNI](http://en.wikipedia.org/wiki/Gross_National_Income) forecast for the respective periods. By comparison, the UK expenditure for 2004 alone was estimated at about €759 billion and France was estimated at about €801 billion.

Revenue

The EU obtains most of its revenue indirectly by payments from treasuries of member states. Revenue is divided into three categories.

**Traditional own resources** are taxes raised on behalf of the EU as a whole, principally import duties on goods brought into the EU. These are collected by the state where import occurs and passed on to the EU. States are allowed to keep a proportion of the revenue to cover administration.

**VAT based own resources** are taxes on EU citizens as a proportion of VAT in each member country. VAT rates and exemptions vary in different countries, so a formula is used to create the 'harmonised tax base'. The starting point for calculations is the total VAT raised in a country.

**GNI based own resources** currently forms the largest contribution to EU funding. A simple multiplier is applied to the calculated GNI for the country concerned. Revenue is currently capped at 1.24% of GNI for the EU as a whole.

Principles of European Contract Law

The ***Principles of European Contract Law*** is a set of model rules drawn up by leading contract law academics in [Europe](http://en.wikipedia.org/wiki/Europe). It attempts to elucidate basic rules of contract law and more generally the law of obligations which most legal systems of the member states of the [European Union](http://en.wikipedia.org/wiki/European_Union) hold in common. The Principles of European Contract Law (**PECL**) are based on the concept of a uniform European contract law system, and were created by the Commission on European Contract Law (“Lando Commission”). The PECL take into account the requirements of the European domestic trade.

Definition

In the broader sense the PECL are a "set of general rules which are designed to provide maximum flexibility and thus accommodate future development in legal thinking in the field of contract law."[[1]](http://en.wikipedia.org/wiki/Principles_of_European_Contract_Law#cite_note-0)

The impetus for the work on the PECL were resolutions of the European Parliament of 1989 and 1994 which expressed the desire to establish a common European civil law. As an initial foundation, a common contract law was to be first created.

Pursuing this goal, the Commission on European Contract Law (an organization independent from any national obligations) started work in 1982 under the chairmanship of Ole Lando, a lawyer and professor from Denmark. The Commission consisted of 22 members from all member states of the European Union and was partly financed by the EU. In the year 1995 the first part of the PECL was published; since 1999 the second part has been available and the third part was completed in 2002.

Today, the work of the Commission on European Contract Law is continued by the *Study Group on a European Civil Code*. The Group is managed by Christian von Bar, a German law professor. The Group was founded in 2005.

The PECL were inspired by the [United Nations Convention on Contracts for the International Sale of Goods](http://en.wikipedia.org/wiki/United_Nations_Convention_on_Contracts_for_the_International_Sale_of_Goods) (**CISG**) from 1980; however, they are a so-called *Soft Law*, such as the American Restatement of the Law of Contract, which is supposed to restate the Common Law of the [United States](http://en.wikipedia.org/wiki/United_States). Therefore, the PECL do not represent a legally enforceable regulation: "The term 'soft law' is a blanket term for all sorts of rules, which are not enforced on behalf of the state, but are seen, for example, as goals to be achieved."[[2]](http://en.wikipedia.org/wiki/Principles_of_European_Contract_Law#cite_note-1)

Thus, the PECL are very similar to the *Principles of International Commercial Contracts* of UNIDROIT - [International Institute for the Unification of Private Law](http://en.wikipedia.org/wiki/International_Institute_for_the_Unification_of_Private_Law) (*Unidroit Principles*) which were already published in 1994. As is the case with the PECL, the Unidroit-Principles are a “private codification” prepared by top-class jurists without any national or supranational order or authorization. Their main goal of both the PECL and the Unidroit Principles was the compilation of uniform legal principles for reference, and, if necessary, the development of national legal systems.

In the compilation of the PECL, the Law of the EU member states, and thus common and civil law, as well as Non-European Law were taken into consideration. In the PECL regulations are available which in this form have not been included so far in any legal system. The authors of the PECL also pursued the long term goal of influencing the development of laws in Europe.

Uniform Commercial Code

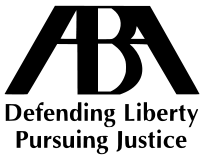
The **Uniform Commercial Code** (**UCC** or the Code), first published in 1952, is one of a number of [uniform acts](http://en.wikipedia.org/wiki/Uniform_act) that have been promulgated in conjunction with efforts to harmonize the law of [sales](http://en.wikipedia.org/wiki/Sales) and other commercial transactions in all 50 [states](http://en.wikipedia.org/wiki/U.S._states) within the [United States of America](http://en.wikipedia.org/wiki/United_States).

Goals

The goal of harmonizing state law is important because of the prevalence of commercial transactions that extend beyond one state. For example, goods may be manufactured in State A, warehoused in State B, sold from State C and delivered in State D. The UCC therefore achieved the goal of substantial uniformity in commercial laws and, at the same time, allowed the states the flexibility to meet local circumstances by modifying the UCC's text as enacted in each state. The UCC deals primarily with transactions involving [personal property](http://en.wikipedia.org/wiki/Personal_property) (movable property), not [real property](http://en.wikipedia.org/wiki/Real_property) (immovable property).

Other goals of the UCC were to modernize contract law and to allow for exceptions from the [common law](http://en.wikipedia.org/wiki/Common_law) in contracts between merchants.

American Bar Association

[](http://en.wikipedia.org/wiki/File:American_Bar_Association.svg)  
Logo of the American Bar Association

The **American Bar Association** (**ABA**), founded August 21, 1878,[[1]](http://en.wikipedia.org/wiki/American_Bar_Association#cite_note-0) is a [voluntary](http://en.wikipedia.org/wiki/Voluntary_association) [bar association](http://en.wikipedia.org/wiki/Bar_association) of [lawyers](http://en.wikipedia.org/wiki/Lawyers) and law students, which is not specific to any jurisdiction in the United States. The ABA's most important stated activities are the setting of academic standards for [law schools](http://en.wikipedia.org/wiki/Law_school), and the formulation of model ethical codes related to the legal profession. The ABA has 410,000 members. Its national [headquarters](http://en.wikipedia.org/wiki/Headquarters) are in [Chicago, Illinois](http://en.wikipedia.org/wiki/Chicago,_Illinois); it also maintains a significant branch office in [Washington, D.C.](http://en.wikipedia.org/wiki/Washington,_D.C.)

Mission

The ABA mission, as stated in its 2008 mission statement, is "To serve equally our members, our profession and the public by defending liberty and delivering justice as the national representative of the legal profession."[[2]](http://en.wikipedia.org/wiki/American_Bar_Association#cite_note-1) The goals and objectives are:

* Goal 1: Serve our members. (Objective: Provide benefits, programs and services which promote members’ professional growth and quality of life.)
* Goal 2: Improve our profession. (Objectives: 1) Promote the highest quality legal education; 2) Promote competence, ethical conduct and professionalism; 3) Promote pro bono and public service by the legal profession.)
* Goal 3: Eliminate bias and enhance diversity. (Objectives: 1) Promote full and equal participation in the association, our profession, and the justice system by all persons; 2) Eliminate bias in the legal profession and the justice system.)
* Goal 4: Advance the rule of law. (Objectives: 1) Increase public understanding of and respect for the rule of law, the legal process, and the role of the legal profession at home and throughout the world; 2) Hold governments accountable under law; 3) Work for just laws, including human rights, and a fair legal process; 4) Assure meaningful access to justice for all persons; and 5) Preserve the independence of the legal profession and the judiciary.)

National People's Congress

[](http://en.wikipedia.org/wiki/File:Tiananmen_Square_Visit.jpg)

The [Great Hall of the People](http://en.wikipedia.org/wiki/Great_Hall_of_the_People), where the NPC convenes

The **National People's Congress** (abbreviated **NPC** ([Chinese](http://en.wikipedia.org/wiki/Chinese_language): [人](http://en.wiktionary.org/wiki/%E4%BA%BA)[大](http://en.wiktionary.org/wiki/%E5%A4%A7); [pinyin](http://en.wikipedia.org/wiki/Pinyin): [*Rén*](http://en.wiktionary.org/wiki/R%C3%A9n)*-*[*Dà*](http://en.wiktionary.org/wiki/D%C3%A0))), is the highest state body and the only legislative house in the [People's Republic of China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China). The National People's Congress is held in the [Great Hall of the People](http://en.wikipedia.org/wiki/Great_Hall_of_the_People), [Beijing](http://en.wikipedia.org/wiki/Beijing), capital of the People's Republic of China; with 2,987 members, it is the largest parliament in the world.[[1]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-0) The NPC gathers each year along with the [People's Political Consultative Conference](http://en.wikipedia.org/wiki/Chinese_People%27s_Political_Consultative_Conference) (CPPCC) whose members represent various defined groups of society. NPC and CPPCC together are often called the [Lianghui](http://en.wikipedia.org/wiki/Lianghui) (Two Meetings), making important national level political decisions.

Although the membership of the NPC is still largely determined by the [Communist Party of China](http://en.wikipedia.org/wiki/Communist_Party_of_China), since the early 1990s it has moved away from its previous role as a symbolic but powerless [rubber-stamp legislature](http://en.wikipedia.org/wiki/Rubber-stamp_legislature), and has become a forum for mediating policy differences between different parts of the Party, the government, and groups of society. For the NPC to formally defeat a proposal put before it is a rare, but not non-existent event. However, the BBC still describes the NPC as a rubber-stamp for party decisions,[[2]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-1) and has testimony from a member of the NPC, Hu Xiaoyan, that she has no power to help her constituents. She was quoted as saying, "As a parliamentary representative, I don't have any real power."[[3]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-2)

Powers and functions

The NPC has a collection of functions and powers, including electing the [President of the People's Republic of China](http://en.wikipedia.org/wiki/President_of_the_People%27s_Republic_of_China) and approving the appointment of the [Premier of the State Council](http://en.wikipedia.org/wiki/Premier_of_the_People%27s_Republic_of_China) as well as approving the work reports of top officials. The constitution of the National People's Congress provides for most of its power to be exercised on a day-to-day basis by its Standing Committee.

The drafting process of NPC legislation is governed by the *Organic Law of the NPC* (1982) and the *NPC Procedural Rules* (1989). It begins with a small group, often of outside experts, who begin a draft. Over time, this draft is considered by larger and larger groups, with an attempt made to maintain consensus at each step of the process. By the time the full NPC or NPCSC meets to consider the legislation, the major substantive elements of the draft legislation have largely been agreed to. However, minor wording changes to the draft are often made at this stage. The process ends with a formal vote by the Standing Committee of the NPC or by the NPC in a plenary session.

In addition, the NPC now functions as a forum in which legislative proposals are drafted and debated with input from different parts of the government and outside technical experts. However, there are a wide range of issues for which there is no consensus within the Party and over which different parts of the party or government have different opinions. Over these issues the NPC has often become a forum for debating ideas and for achieving consensus.

In practice, although the final votes on laws of the NPC often return a high affirmative vote, a great deal of legislative activity occurs in determining the content of the legislation to be voted on. A major bill such as the Securities Law can take years to draft, and a bill sometimes will not be put before a final vote if there is significant opposition to the measure.[[4]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-3) With respect to proposals by the [State Council of the People's Republic of China](http://en.wikipedia.org/wiki/State_Council_of_the_People%27s_Republic_of_China), the NPC has rejected a bill on maritime safety, and it is no longer uncommon for the State Council to amend or withdraw a bill on account of NPC opposition as with the case of the fuel tax[[5]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-4)[[6]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-5)[[7]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-6) and the draft food safety law[[8]](http://en.wikipedia.org/wiki/National_People%27s_Congress#cite_note-7) which have been repeatedly blocked by the NPC.

One important constitutional principle which is stated in Article 8 of the [Legislation Law of the People's Republic of China](http://en.wikipedia.org/wiki/Legislation_Law_of_the_People%27s_Republic_of_China) is that an action can become a crime only as a consequence of a law passed by the full NPC and that other organs of the Chinese government do not have the power to criminalize activity. This principle was used to overturn police regulations on [custody and repatriation](http://en.wikipedia.org/wiki/Custody_and_repatriation) and has been used to call into question the legality of [re-education through labour](http://en.wikipedia.org/wiki/Re-education_through_labor).

Special economic zone

A **Special Economic Zone** (**SEZ**) is a geographical region that has economic and other laws that are more free-market-oriented than a country's typical or national laws. "Nationwide" laws may be suspended inside a special economic zone.

The category 'SEZ' covers, including [Free Trade Zones](http://en.wikipedia.org/wiki/Free_Trade_Zones) (FTZ), Export Processing Zones (EPZ), [Free Zones](http://en.wikipedia.org/wiki/Free_Zone) (FZ), [Industrial parks](http://en.wikipedia.org/wiki/Industrial_park) or Industrial Estates (IE), [Free Ports](http://en.wikipedia.org/wiki/Free_Port), Urban Enterprise Zones and others.

Usually the goal of a structure is to increase [foreign direct investment](http://en.wikipedia.org/wiki/Foreign_direct_investment) by foreign investors, typically an [international business](http://en.wikipedia.org/wiki/International_business) or a [multinational corporation](http://en.wikipedia.org/wiki/Multinational_corporation) (MNC).

Special Economic Zones of the People's Republic of China

**Special Economic Zones of the People's Republic of China** (**SEZs**) are [special economic zones](http://en.wikipedia.org/wiki/Special_economic_zones) located in [mainland China](http://en.wikipedia.org/wiki/Mainland_China). The [government of the People's Republic of China](http://en.wikipedia.org/wiki/Government_of_the_People%27s_Republic_of_China) gives SEZs special economic policies (more [free market](http://en.wikipedia.org/wiki/Free_market) orientated) and flexible governmental measures. This allows SEZs to utilize an economic management system that is especially conducive to doing business that does not exist in the rest of mainland China.

List of SEZs

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|  |

As part of its economic reforms and policy of opening to the world, between 1980 and 1984 China established [special economic zones](http://en.wikipedia.org/wiki/Special_economic_zone) (SEZs) in [Shantou](http://en.wikipedia.org/wiki/Shantou), [Shenzhen](http://en.wikipedia.org/wiki/Shenzhen), and [Zhuhai](http://en.wikipedia.org/wiki/Zhuhai) in [Guangdong](http://en.wikipedia.org/wiki/Guangdong) Province and [Xiamen](http://en.wikipedia.org/wiki/Xiamen) in [Fujian](http://en.wikipedia.org/wiki/Fujian) Province and designated the entire island province of [Hainan](http://en.wikipedia.org/wiki/Hainan) a special economic zone.

In 1984 China opened 14 other coastal cities to overseas investment (listed north to south): [Dalian](http://en.wikipedia.org/wiki/Dalian), [Qinhuangdao](http://en.wikipedia.org/wiki/Qinhuangdao), [Tianjin](http://en.wikipedia.org/wiki/Tianjin), [Yantai](http://en.wikipedia.org/wiki/Yantai),[Qingdao](http://en.wikipedia.org/wiki/Qingdao), [Lianyungang](http://en.wikipedia.org/wiki/Lianyungang), [Nantong](http://en.wikipedia.org/wiki/Nantong), [Shanghai](http://en.wikipedia.org/wiki/Shanghai), [Ningbo](http://en.wikipedia.org/wiki/Ningbo), [Wenzhou](http://en.wikipedia.org/wiki/Wenzhou), [Fuzhou](http://en.wikipedia.org/wiki/Fuzhou), [Guangzhou](http://en.wikipedia.org/wiki/Guangzhou), [Zhanjiang](http://en.wikipedia.org/wiki/Zhanjiang), and [Beihai](http://en.wikipedia.org/wiki/Beihai).

Then, beginning in [1985](http://en.wikipedia.org/wiki/1985), the central government expanded the coastal area by establishing the following open economic zones (listed north to south): [Liaodong Peninsula](http://en.wikipedia.org/wiki/Liaodong_Peninsula), [Hebei](http://en.wikipedia.org/wiki/Hebei) Province (which surrounds [Beijing](http://en.wikipedia.org/wiki/Beijing) and [Tianjin](http://en.wikipedia.org/wiki/Tianjin)), [Shandong](http://en.wikipedia.org/wiki/Shandong) Peninsula, [Yangtze River Delta](http://en.wikipedia.org/wiki/Yangtze_River_Delta), [Xiamen](http://en.wikipedia.org/wiki/Xiamen)-[Zhangzhou](http://en.wikipedia.org/wiki/Zhangzhou)-[Quanzhou](http://en.wikipedia.org/wiki/Quanzhou) Triangle in southern Fujian Province, [Pearl River Delta](http://en.wikipedia.org/wiki/Pearl_River_Delta), and [Guangxi](http://en.wikipedia.org/wiki/Guangxi).

In 1990 the Chinese government decided to open the [Pudong](http://en.wikipedia.org/wiki/Pudong) New Zone in [Shanghai](http://en.wikipedia.org/wiki/Shanghai) to overseas investment, as well as more cities in the Yangzi River Valley.

Since 1992 the [State Council](http://en.wikipedia.org/wiki/State_Council_of_the_People%27s_Republic_of_China) has opened a number of border cities and all the capital cities of inland provinces and autonomous regions.

In addition, 15 free-trade zones, 32 state-level economic and technological development zones, and 53 new and high-tech industrial development zones have been established in large and medium-sized cities. As a result, a multilevel diversified pattern of opening and integrating coastal areas with river, border, and inland areas has been formed in China.

Economic policies of SEZs

1. Special tax incentives for foreign investments in the SEZs.
2. Greater independence on international trade activities.
3. Economic characteristics are represented as "4 principles":
   1. Construction primarily relies on attracting and utilizing foreign capital
   2. Primary economic forms are Sino-foreign [joint ventures](http://en.wikipedia.org/wiki/Joint_venture) and partnerships as well as wholly foreign-owned enterprises
   3. Products are primarily export-oriented
   4. Economic activities are primarily driven by market forces

SEZs are listed separately in the national planning (including financial planning) and have province-level authority on economic administration. SEZs local congress and government have legislation authority.

India

India was one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. In order to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.

The SEZ Act, 2005, was an important bill to be passed by the Government of India in order to instil confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through their establishment, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10 February 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. The remaining part of India, not covered by the SEZ Rules, is known as the [Domestic tariff area](http://en.wikipedia.org/wiki/Domestic_tariff_area). Exports from Indian SEZ totalled INR 2.2 Trillion in 2009-10 fiscal. It grew by a stupendous 43% to reach INR 3.16 Trillion in 2010-11 fiscal. Indian SEZs have created over 840,000 jobs as of 2010-11.

The objectives of SEZs can be clearly explained as the following:- **(a)** Generation of additional economic activity; **(b)** Promotion of exports of goods and services; **(c)** Promotion of investment from domestic and foreign sources; **(d)** Creation of employment opportunities; **(e)** Development of infrastructure facilities.

North Korea

The [*Rajin-Sonbong Economic Special Zone*](http://en.wikipedia.org/wiki/Rajin-Sonbong_Economic_Special_Zone) was established under a [UN](http://en.wikipedia.org/wiki/United_Nations) economic development programme in 1994. Located on the bank of the Tuman River, the zone borders on the [Yanbian Korean Autonomous Prefecture](http://en.wikipedia.org/wiki/Yanbian_Korean_Autonomous_Prefecture) (or, Yeonbyeon in Korean) of the [People's Republic of China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China), as well as Russia. In 2000 the name of the area was shortened to [Rason](http://en.wikipedia.org/wiki/Rason) and became separate from the [North Hamgyeong Province](http://en.wikipedia.org/wiki/North_Hamgyong).

Republic of Korea (South Korea)

Korean FEZs are designated by law [[20]](http://en.wikipedia.org/wiki/Special_economic_zone#cite_note-19) to facilitate foreign investment, and thereby to strengthen national competitiveness and seek balanced development among regions by improving the business environment for foreign-invested enterprises and living conditions for foreigners.

There are six Free Economic Zones in South Korea. The first three zones were created in 2003 and three more were created in 2008. Jeju Island is not a Free Economic Zone but a free international city.

1. [Incheon Free Economic Zone](http://en.wikipedia.org/wiki/Incheon_Free_Economic_Zone) (IFEZ) in 2003
2. [Busan-Jinhae Free Economic Zone](http://en.wikipedia.org/w/index.php?title=Busan-Jinhae_Free_Economic_Zone&action=edit&redlink=1) (BJFEZ) in 2004
3. [Gwangyang Free Economic Zone](http://en.wikipedia.org/w/index.php?title=Gwangyang_Free_Economic_Zone&action=edit&redlink=1) (GFEZ) in 2004
4. [Saemangum Free Economic Zone](http://en.wikipedia.org/w/index.php?title=Saemangum_Free_Economic_Zone&action=edit&redlink=1) (SGFEZ) in 2008
5. [Yellow Sea Free Economic Zone](http://en.wikipedia.org/w/index.php?title=Yellow_Sea_Free_Economic_Zone&action=edit&redlink=1) (YESFEZ) in 2008
6. [Daegu-Gyeongbuk Free Economic Zone](http://en.wikipedia.org/wiki/Daegu-Gyeongbuk_Free_Economic_Zone) (DGFEZ) in 2008

Democratic Republic of the Congo

[Democratic Republic of the Congo](http://en.wikipedia.org/wiki/Democratic_Republic_of_the_Congo) plans to build its first Special Economic Zone in the Kinshasa district of N'Sélé. The SEZ would be operative in 2012 and dedicated to agro-industries.[[2]](http://en.wikipedia.org/wiki/Special_economic_zone#cite_note-congo-1)

Zambia

[Zambia](http://en.wikipedia.org/wiki/Zambia) is home to two Chinese-supported Special Economic Zones. One sits just outside of [Lusaka](http://en.wikipedia.org/wiki/Lusaka) and the other is in the [copper](http://en.wikipedia.org/wiki/Copper) rich town of Chambishi.[[22]](http://en.wikipedia.org/wiki/Special_economic_zone#cite_note-21) The zones combine expedited customs and administration procedures with tax incentives, to increase investment.[[23]](http://en.wikipedia.org/wiki/Special_economic_zone#cite_note-22)

## Russia

[Russia](http://en.wikipedia.org/wiki/Russia) currently has 16 federal economic zones and several regional projects.

As of March 2010 Russia's federal special economic zones host 207 investors from 18 countries. There are major [MNCs](http://en.wikipedia.org/wiki/MNC) among investors to Russia's SEZ, such as [Yokohama](http://en.wikipedia.org/wiki/Yokohama), [Cisco](http://en.wikipedia.org/wiki/Cisco), [Isuzu](http://en.wikipedia.org/wiki/Isuzu), [Air Liquide](http://en.wikipedia.org/wiki/Air_Liquide), [Bekaert](http://en.wikipedia.org/wiki/Bekaert), [Rockwool](http://en.wikipedia.org/wiki/Rockwool) and many others.

Russia’s 15 existing and to-be federal special economic zones are managed by OJSC "Special Economic Zones".

OJSC "SEZ" was founded in 2006 to accumulate and implement world's [best practices](http://en.wikipedia.org/wiki/Best_practices) in developing and managing SEZ and promote [Foreign direct investment (FDI)](http://en.wikipedia.org/wiki/Foreign_direct_investment) in the Russian [economy](http://en.wikipedia.org/wiki/Economy). It is fully owned and funded by the Russian state.

Federal economic zones in Russia are regulated by Federal Law # 116 FZ issued on July 22, 2005.

### Technical/innovational Zones

* [Dubna](http://en.wikipedia.org/wiki/Dubna)
* [Zelenograd](http://en.wikipedia.org/wiki/Zelenograd) (Moscow)
  + Area *Alabushevo*
  + Area [MIET](http://en.wikipedia.org/wiki/Moscow_Institute_of_Electronic_Technology)
* [Saint Petersburg](http://en.wikipedia.org/wiki/Saint_Petersburg)
  + Area *Neudorf* ([Russian](http://en.wikipedia.org/wiki/Russian_language): Нойдорф) - area in [Strelna](http://en.wikipedia.org/wiki/Strelna) near Saint Petersburg
  + Area *Novo-Orlovskoye* ([Russian](http://en.wikipedia.org/wiki/Russian_language): Ново-Орловское) - area in Saint Petersburg
* [Tomsk](http://en.wikipedia.org/wiki/Tomsk)
  + Area *North*
  + Area *South*

### Industrial/developmental Zones

* “Alabuga” (special economic zone)
* [Lipetsk](http://en.wikipedia.org/wiki/Lipetsk)
* [SEZ Togliatti](http://oeztogliatti.ru/en/)

### Tourist Zones

* [Krasnodar Krai](http://en.wikipedia.org/wiki/Krasnodar_Krai)
* [Stavropol Krai](http://en.wikipedia.org/wiki/Stavropol_Krai)
* [Kaliningrad Oblast](http://en.wikipedia.org/wiki/Kaliningrad_Oblast) ([Yantar, Kaliningrad](http://en.wikipedia.org/wiki/Yantar,_Kaliningrad) Special Economic Zone)
* [Altai Krai](http://en.wikipedia.org/wiki/Altai_Krai)
* [Altai Republic](http://en.wikipedia.org/wiki/Altai_Republic)
* [Irkutsk Oblast](http://en.wikipedia.org/wiki/Irkutsk_Oblast)
* [Buryatia](http://en.wikipedia.org/wiki/Republic_of_Buryatia)
* [Vladivostok](http://en.wikipedia.org/wiki/Vladivostok)

# IV International Business Law

International commercial law

**International commercial law** is the body of law that governs international sale transactions.[[1]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-0) A transaction will qualify to be international if elements of more than one country are involved.[[2]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-1)

Since [World War II](http://en.wikipedia.org/wiki/World_War_II) international trade has grown extensively, seeing the increasing importance of international commercial law. It plays a vital role in world development, particularly through the integration of world markets.

[*Lex mercatoria*](http://en.wikipedia.org/wiki/Lex_mercatoria) refers to that part of international commercial law which is unwritten, including customary commercial law; customary rules of evidence and procedure; and general principles of commercial law.[[3]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-2)

International commercial contracts

International commercial contracts are sale transaction agreements made between parties from different countries.[[4]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-3)

The methods of entering the foreign market,[[5]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-4) with choice made balancing costs, control and risk, include:[[6]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-5)

1. Export directly.
2. Use of foreign agent to sell and distribute.[[7]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-6)
3. Use of foreign distributor to on-sell to local customers.
4. Manufacture products in the foreign country by either setting up business or by acquiring a foreign subsidiary.[[8]](http://en.wikipedia.org/wiki/International_commercial_law#cite_note-7)
5. Licence to a local producer.
6. Enter into a joint venture with a foreign entity.
7. Appoint a [franchisee](http://en.wikipedia.org/wiki/Franchising) in the foreign country.

Foreign direct investment

**Foreign direct investment** (**FDI**) is direct investment into production in a country by a company located in another country, either by buying a company in the country or by expanding operations of an existing business in the country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as [tax exemptions](http://en.wikipedia.org/wiki/Tax_exemption) offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to [portfolio investment](http://en.wikipedia.org/wiki/Portfolio_investment) which is a passive investment in the securities of another country such as [stocks](http://en.wikipedia.org/wiki/Stocks) and [bonds](http://en.wikipedia.org/wiki/Bond_(finance)). [[1]](http://en.wikipedia.org/wiki/Foreign_direct_investment#cite_note-0) [[2]](http://en.wikipedia.org/wiki/Foreign_direct_investment#cite_note-1)

As a part of the [national accounts](http://en.wikipedia.org/wiki/National_accounts) of a country FDI refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.[[3]](http://en.wikipedia.org/wiki/Foreign_direct_investment#cite_note-2) It is the sum of [equity capital](http://en.wikipedia.org/wiki/Equity_capital), other long-term capital, and short-term capital as shown the [balance of payments](http://en.wikipedia.org/wiki/Balance_of_payments). It usually involves participation in management, [joint-venture](http://en.wikipedia.org/wiki/Joint-venture), [transfer of technology](http://en.wikipedia.org/wiki/Transfer_of_technology) and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a *net* FDI *inflow* (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes [investment through purchase of shares](http://en.wikipedia.org/wiki/Foreign_portfolio_investment).[[4]](http://en.wikipedia.org/wiki/Foreign_direct_investment#cite_note-3) FDI is one example of [international factor movements](http://en.wikipedia.org/wiki/International_factor_movements).

Directive on services in the internal market

The **Directive on services in the internal market** (commonly referred to as the **Bolkestein Directive**) is an [EU law](http://en.wikipedia.org/wiki/EU_law) aiming at establishing a [single market](http://en.wikipedia.org/wiki/Single_market) for [services](http://en.wikipedia.org/wiki/Service_(economics)) within the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU). Drafted under the leadership of the former [European Commissioner for the Internal Market](http://en.wikipedia.org/wiki/European_Commissioner) [Frits Bolkestein](http://en.wikipedia.org/wiki/Frits_Bolkestein), it has been popularly referred to by his name. It was seen as an important kick-start to the [Lisbon Agenda](http://en.wikipedia.org/wiki/Lisbon_Agenda) which, launched in 2000, was an agreed strategy to make the EU "the world's most dynamic and competitive economy" by 2010.

## Approval and implementation

The Directive, after being substantially amended from the original proposal, was adopted on 12 December 2006 by the [Council](http://en.wikipedia.org/wiki/Council_of_the_European_Union) and the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament), and published on the [Official Journal of the European Union](http://en.wikipedia.org/wiki/Official_Journal_of_the_European_Union) on 27 December 2006 as the Directive 2006/123/EC. Therefore the Directive on services in the internal market should have been completely implemented by the Member States within the 28th December 2009.[[6]](http://en.wikipedia.org/wiki/Directive_on_services_in_the_internal_market#cite_note-5) [[7]](http://en.wikipedia.org/wiki/Directive_on_services_in_the_internal_market#cite_note-6) [[8]](http://en.wikipedia.org/wiki/Directive_on_services_in_the_internal_market#cite_note-7)

Although the final version did not include the "country of origin principle", the Directive instead reminded Member States of the principle of free movement, while accepting inroads when free movement collides with other public interests. However, before making such inroads, authorities have to verify and recognize any protection already provided in the country of origin - under the mutual recognition principle, they need to take into account what takes place in other countries before proceeding.[[9]](http://en.wikipedia.org/wiki/Directive_on_services_in_the_internal_market#cite_note-8)

### Implementation

The Services Directive, which came into force on the 28th December 2009, requires all EU Member States to establish web portals so anyone who provides a service will have a "point of single contact" where they can find out what legal requirements they would need to meet to operate in the country in question. Service providers can also use the web portals to apply for any licence or permit they would need.

Point of contact

**A Point of Contact** (**POC**, also single point of contact or **SPOC**) is the identification of, and means of communication with, person(s) and organizations(s) associated with the resource(s). A POC can be a person or a department serving as the coordinator or focal point of information concerning an activity or program. POC's are used in many cases where information is time-sensitive and accuracy is important. For example, they are used in [Whois](http://en.wikipedia.org/wiki/Whois) databases.[[1]](http://en.wikipedia.org/wiki/Point_of_contact#cite_note-0)

Basel Committee on Banking Supervision

The **Basel Committee on Banking Supervision** (**BCBS**)[[1]](http://en.wikipedia.org/wiki/Basel_Committee_on_Banking_Supervision#cite_note-0) is a committee of banking supervisory authorities that was established by the [central bank](http://en.wikipedia.org/wiki/Central_bank) governors of the [Group of Ten](http://en.wikipedia.org/wiki/Group_of_Ten_(economic)) countries in 1974.[[2]](http://en.wikipedia.org/wiki/Basel_Committee_on_Banking_Supervision#cite_note-1) It provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. The Committee also frames guidelines and standards in different areas - some of the better known among them are the international standards on capital adequacy, the Core Principles for Effective Banking Supervision and the Concordat on cross-border banking supervision [[3]](http://en.wikipedia.org/wiki/Basel_Committee_on_Banking_Supervision#cite_note-2).

The Committee's members come from [Argentina](http://en.wikipedia.org/wiki/Argentina), [Australia](http://en.wikipedia.org/wiki/Australia), [Belgium](http://en.wikipedia.org/wiki/Belgium), [Brazil](http://en.wikipedia.org/wiki/Brazil), [Canada](http://en.wikipedia.org/wiki/Canada), [China](http://en.wikipedia.org/wiki/China), [France](http://en.wikipedia.org/wiki/France), [Germany](http://en.wikipedia.org/wiki/Germany), [Hong Kong SAR](http://en.wikipedia.org/wiki/Hong_Kong_SAR), [India](http://en.wikipedia.org/wiki/India), [Indonesia](http://en.wikipedia.org/wiki/Indonesia), [Italy](http://en.wikipedia.org/wiki/Italy), [Japan](http://en.wikipedia.org/wiki/Japan), [Korea](http://en.wikipedia.org/wiki/South_Korea), [Luxembourg](http://en.wikipedia.org/wiki/Luxembourg), [Mexico](http://en.wikipedia.org/wiki/Mexico), the [Netherlands](http://en.wikipedia.org/wiki/Netherlands), [Russia](http://en.wikipedia.org/wiki/Russia), [Saudi Arabia](http://en.wikipedia.org/wiki/Saudi_Arabia), [Singapore](http://en.wikipedia.org/wiki/Singapore), [South Africa](http://en.wikipedia.org/wiki/South_Africa), [Spain](http://en.wikipedia.org/wiki/Spain), [Sweden](http://en.wikipedia.org/wiki/Sweden), [Switzerland](http://en.wikipedia.org/wiki/Switzerland), [Turkey](http://en.wikipedia.org/wiki/Turkey), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom) and the [United States](http://en.wikipedia.org/wiki/United_States). The Committee's Secretariat is located at the [Bank for International Settlements (BIS)](http://en.wikipedia.org/wiki/Bank_for_International_Settlements) in [Basel](http://en.wikipedia.org/wiki/Basel), Switzerland. However, the BIS and the Basel Committee remain two distinct entities.[[4]](http://en.wikipedia.org/wiki/Basel_Committee_on_Banking_Supervision#cite_note-3)

The Basel Committee formulates broad supervisory standards and guidelines and recommends statements of best practice in banking supervision (see [bank regulation](http://en.wikipedia.org/wiki/Bank_regulation) or "[Basel III](http://en.wikipedia.org/wiki/Basel_III) Accord", for example) in the expectation that member authorities and other nations' authorities will take steps to implement them through their own national systems, whether in statutory form or otherwise.

The purpose of BCBS is to encourage convergence toward common approaches and standards. The Committee is not a classical multilateral organization, in part because it has no founding treaty. BCBS does not issue binding regulation; rather, it functions as an informal forum in which policy solutions and standards are developed.[[5]](http://en.wikipedia.org/wiki/Basel_Committee_on_Banking_Supervision#cite_note-4)

Basel II

**Basel II** is the second of the [Basel Accords](http://en.wikipedia.org/wiki/Basel_Accords), (now extended and effectively superseded by [Basel III](http://en.wikipedia.org/wiki/Basel_III)), which are recommendations on banking laws and regulations issued by the [Basel Committee on Banking Supervision](http://en.wikipedia.org/wiki/Basel_Committee_on_Banking_Supervision).

Basel II, initially published in June 2004, was intended to create an international standard for banking regulators to control how much capital banks need to put aside to guard against the types of financial and operational risks banks (and the whole economy) face. One focus was to maintain sufficient consistency of regulations so that this does not become a source of competitive inequality amongst internationally active banks. Advocates of Basel II believed that such an international standard could help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. In theory, Basel II attempted to accomplish this by setting up [risk](http://en.wikipedia.org/wiki/Risk_management) and capital management requirements designed to ensure that a bank has [adequate capital](http://en.wikipedia.org/wiki/Capital_adequacy) for the risk the bank exposes itself to through its lending and investment practices. Generally speaking, these rules mean that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its [solvency](http://en.wikipedia.org/wiki/Solvency) and overall economic stability.

## The accord in operation

Basel II uses a "three pillars" concept – (1) [minimum capital requirements](http://en.wikipedia.org/wiki/Capital_requirement) (addressing risk), (2) [supervisory review](http://en.wikipedia.org/wiki/Bank_regulation#Supervisory_review) and (3) [market discipline](http://en.wikipedia.org/wiki/Market_discipline).

The [Basel I](http://en.wikipedia.org/wiki/Basel_I) accord dealt with only parts of each of these pillars. For example: with respect to the first Basel II pillar, only one risk, credit risk, was dealt with in a simple manner while market risk was an afterthought; operational risk was not dealt with at all.

### The first pillar

The first pillar deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: [credit risk](http://en.wikipedia.org/wiki/Credit_risk), [operational risk](http://en.wikipedia.org/wiki/Operational_risk), and [market risk](http://en.wikipedia.org/wiki/Market_risk). Other risks are not considered fully quantifiable at this stage.

The [credit risk](http://en.wikipedia.org/wiki/Credit_risk) component can be calculated in three different ways of varying degree of sophistication, namely [standardized approach](http://en.wikipedia.org/wiki/Standardized_approach_(credit_risk)), [Foundation IRB](http://en.wikipedia.org/wiki/Foundation_IRB) and [Advanced IRB](http://en.wikipedia.org/wiki/Advanced_IRB). IRB stands for "Internal Rating-Based Approach".

For [operational risk](http://en.wikipedia.org/wiki/Operational_risk), there are three different approaches - [basic indicator approach](http://en.wikipedia.org/wiki/Basic_indicator_approach) or BIA, [standardized approach](http://en.wikipedia.org/wiki/Standardized_approach_(operational_risk)) or STA, and the internal measurement approach (an advanced form of which is the [advanced measurement approach](http://en.wikipedia.org/wiki/Advanced_measurement_approach) or AMA).

For [market risk](http://en.wikipedia.org/wiki/Market_risk) the preferred approach is VaR ([value at risk](http://en.wikipedia.org/wiki/Value_at_risk)).

As the Basel 2 recommendations are phased in by the banking industry it will move from standardised requirements to more refined and specific requirements that have been developed for each risk category by each individual bank. The upside for banks that do develop their own bespoke risk measurement systems is that they will be rewarded with potentially lower risk capital requirements. In future there will be closer links between the concepts of economic profit and regulatory capital.

Credit Risk can be calculated by using one of three approaches:

1. Standardised Approach

2. Foundation IRB

3. Advanced IRB Approach

The standardized approach sets out specific [risk weights](http://en.wikipedia.org/wiki/Risk-weighted_asset) for certain types of credit risk. The standard risk weight categories used under Basel 1 were 0% for government bonds, 20% for exposures to OECD Banks, 50% for first line residential mortgages and 100% weighting on consumer loans and unsecured commercial loans. Basel II introduced a new 150% weighting for borrowers with lower credit ratings. The minimum capital required remained at 8% of risk weighted assets, with Tier 1 capital making up not less than half of this amount.

Banks that decide to adopt the standardised ratings approach must rely on the ratings generated by external agencies. Certain banks used the IRB approach as a result.

### The second pillar

The second pillar deals with the regulatory response to the first pillar, giving [regulators](http://en.wikipedia.org/wiki/Bank_regulation) much improved 'tools' over those available to them under Basel I. It also provides a framework for dealing with all the other risks a bank may face, such as [systemic risk](http://en.wikipedia.org/wiki/Systemic_risk), pension risk, [concentration risk](http://en.wikipedia.org/wiki/Concentration_risk), strategic risk, [reputational risk](http://en.wikipedia.org/wiki/Reputational_risk), [liquidity risk](http://en.wikipedia.org/wiki/Liquidity_risk) and [legal risk](http://en.wikipedia.org/wiki/Legal_risk), which the accord combines under the title of residual risk. It gives banks a power to review their risk management system.

Internal Capital Adequacy Assessment Process (ICAAP) is the result of Pillar II of Basel II accords

### The third pillar

This pillar aims to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of an institution.

[Market discipline](http://en.wikipedia.org/wiki/Market_discipline) supplements regulation as sharing of information facilitates assessment of the bank by others including investors, analysts, customers, other banks and rating agencies which leads to good corporate governance. The aim of pillar 3 is to allow market discipline to operate by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes and the capital adequacy of the institution. It must be consistent with how the senior management including the board access and manage the risks of the institution.

When market participants have a sufficient understanding of a bank’s activities and the controls it has in place to manage its exposures, they are better able to distinguish between banking organisations so that they can reward those that manage their risks prudently and penalise those that do not.

These disclosures are required to be made at least twice a year, except qualitative disclosures providing a summary of the general risk management objectives and policies which can be made annually. Institutions are also required to create a formal policy on what will be disclosed, controls around them along with the validation and frequency of these disclosures. In general, the disclosures under Pillar 3 apply to the top consolidated level of the banking group to which the Basel II framework applies.

Bank for International Settlements

[](http://en.wikipedia.org/wiki/File:BIS_members.svg)

[magnify-clip](http://en.wikipedia.org/wiki/File:BIS_members.svg)

BIS members

The **Bank for International Settlements** (**BIS**) is an [intergovernmental organization](http://en.wikipedia.org/wiki/Intergovernmental_organization) of [central banks](http://en.wikipedia.org/wiki/Central_banks) which "fosters international monetary and financial cooperation and serves as a bank for central banks."[[2]](http://en.wikipedia.org/wiki/Bank_for_International_Settlements#cite_note-About-1) It is not accountable to any national government. The BIS carries out its work through subcommittees, the secretariats it hosts, and through its annual General Meeting of all members. It also provides banking services, but only to central banks, or to international organizations like itself. The BIS was established by the [Hague agreements](http://en.wikipedia.org/wiki/Hague_Agreement) of 1930. It is based in [Basel](http://en.wikipedia.org/wiki/Basel), Switzerland, and has representative offices in Hong Kong and Mexico City.

## Organization of central banks

As an organization of central banks, the BIS seeks to make [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy) more predictable and transparent among its 58 member central banks. While monetary policy is determined by each sovereign nation, it is subject to central and private banking scrutiny and potentially to speculation that affects [foreign exchange](http://en.wikipedia.org/wiki/Foreign_exchange_market) rates and especially the fate of export economies. Failures to keep monetary policy in line with reality and make [monetary reforms](http://en.wikipedia.org/wiki/Monetary_reform) in time, preferably as a [simultaneous policy](http://en.wikipedia.org/wiki/Simultaneous_policy) among all 58 member banks and also involving the [International Monetary Fund](http://en.wikipedia.org/wiki/International_Monetary_Fund), have historically led to losses in the billions as banks try to maintain a policy using [open market](http://en.wikipedia.org/wiki/Open_market) methods that have proven to be unrealistic. Central banks do not unilaterally "set" rates, rather they set goals and intervene using their massive financial resources and regulatory powers to achieve monetary targets they set. One reason to coordinate policy closely is to ensure that this does not become too expensive and that opportunities for private [arbitrage](http://en.wikipedia.org/wiki/Arbitrage) exploiting shifts in policy or difference in policy are rare and quickly removed.

Two aspects of monetary policy have proven to be particularly sensitive, and the BIS therefore has two specific goals: to regulate [capital adequacy](http://en.wikipedia.org/wiki/Capital_adequacy) and make [reserve requirements](http://en.wikipedia.org/wiki/Reserve_requirement) transparent.

### Regulates capital adequacy

Capital adequacy policy applies to [equity](http://en.wikipedia.org/wiki/Stock) and [capital assets](http://en.wikipedia.org/wiki/Capital_asset). These can be overvalued in many circumstances because they do not always reflect current market conditions or adequately assess the risk of every trading position. Accordingly the BIS requires the [capital/asset ratio](http://en.wikipedia.org/wiki/Capital_adequacy_ratio) of central banks to be above a prescribed minimum international standard, for the protection of all central banks involved. The BIS's main role is in setting capital adequacy requirements. From an international point of view, ensuring capital adequacy is the most important problem between central banks, as speculative lending based on inadequate underlying capital and widely varying liability rules causes economic crises as "bad money drives out good" ([Gresham's Law](http://en.wikipedia.org/wiki/Gresham%27s_Law)).

### Encourages reserve transparency

Reserve policy is also important, especially to consumers and the domestic economy. To ensure [liquidity](http://en.wikipedia.org/wiki/Liquidity) and limit [liability](http://en.wikipedia.org/wiki/Liability_(financial_accounting)) to the larger economy, banks cannot create money in specific industries or regions without limit. To make bank depositing and borrowing safer for customers and reduce risk of bank runs, banks are required to set aside or "reserve".

Reserve policy is harder to standardize as it depends on local conditions and is often fine-tuned to make industry-specific or region-specific changes, especially within large [developing nations](http://en.wikipedia.org/wiki/Developing_nation). For instance, the [People's Bank of China](http://en.wikipedia.org/wiki/People%27s_Bank_of_China) requires urban banks to hold 7% reserves while letting rural banks continue to hold only 6%, and simultaneously telling all banks that reserve requirements on certain overheated industries would rise sharply or penalties would be laid if investments in them did not stop completely. The PBoC is thus unusual in acting as a [national bank](http://en.wikipedia.org/wiki/National_bank), focused on the country not on the currency, but its desire to control [asset inflation](http://en.wikipedia.org/wiki/Asset_inflation) is increasingly shared among BIS members who fear "[bubbles](http://en.wikipedia.org/wiki/Economic_bubble)", and among exporting countries that find it difficult to manage the diverse requirements of the domestic economy, especially rural agriculture, and an export economy, especially in manufactured goods. Effectively, the PBoC sets different reserve levels for domestic and export styles of development. Historically, the US also did this, by dividing federal monetary management into nine regions, in which the less-developed Western US had looser policies.

For various reasons it has become quite difficult to accurately assess reserves on more than simple loan instruments, and this plus the regional differences has tended to discourage standardizing any reserve rules at the global BIS scale. Historically, the BIS did set some standards which favoured lending money to private landowners (at about 5 to 1) and for-profit corporations (at about 2 to 1) over loans to individuals. These distinctions reflecting [classical economics](http://en.wikipedia.org/wiki/Classical_economics) were superseded by policies relying on undifferentiated market values – more in line with [neoclassical economics](http://en.wikipedia.org/wiki/Neoclassical_economics).

Embargo

An **embargo** (from the [Spanish](http://en.wikipedia.org/wiki/Spanish_language) *embargo*) is the partial or complete prohibition of commerce and trade with a particular country, in order to isolate it. Embargoes are considered strong diplomatic measures imposed in an effort, by the imposing country, to elicit a given national-interest result from the country on which it is imposed. Embargoes are similar to [economic sanctions](http://en.wikipedia.org/wiki/Economic_sanctions) and are generally considered legal barriers to trade, not to be confused with [blockades](http://en.wikipedia.org/wiki/Blockades), which are often considered to be acts of [war](http://en.wikipedia.org/wiki/War).[[1]](http://en.wikipedia.org/wiki/Embargo#cite_note-0)

Embargo may also refer to the practice of blocking fare classes at certain levels, and award availability on airlines. In response to embargoes, an independent economy or [autarky](http://en.wikipedia.org/wiki/Autarky) often develops in an area subjected to heavy embargo. Effectiveness of embargoes is thus in proportion to the extent and degree of international participation.

Arbitration

**Arbitration**, a form of [alternative dispute resolution](http://en.wikipedia.org/wiki/Alternative_dispute_resolution) (ADR), is a [legal](http://en.wikipedia.org/wiki/Law) technique for the resolution of [disputes](http://en.wikipedia.org/wiki/Dispute) outside the [courts](http://en.wikipedia.org/wiki/Court), where the parties to a dispute refer it to one or more persons (the "arbitrators", "arbiters" or "[arbitral tribunal](http://en.wikipedia.org/wiki/Arbitral_tribunal)"), by whose decision (the "[award](http://en.wikipedia.org/wiki/Arbitral_award)") they agree to be bound. It is a resolution technique in which a third party reviews the evidence in the case and imposes a decision that is legally binding for both sides and enforceable.[[1]](http://en.wikipedia.org/wiki/Arbitration#cite_note-0) Other forms of ADR include [mediation](http://en.wikipedia.org/wiki/Mediation) [[2]](http://en.wikipedia.org/wiki/Arbitration#cite_note-1) (a form of settlement negotiation facilitated by a neutral third party) and non-binding resolution by experts. Arbitration is often used for the resolution of [commercial](http://en.wikipedia.org/wiki/Commercial_law) disputes, particularly in the context of [international commercial transactions](http://en.wikipedia.org/wiki/International_commerce). The use of arbitration is also frequently employed in consumer and employment matters, where arbitration may be mandated by the terms of employment or commercial contracts.

Arbitration can be either voluntary or mandatory (although mandatory arbitration can only come from a statute or from a contract that is voluntarily entered into, where the parties agree to hold all existing or future disputes to arbitration, without necessarily knowing, specifically, what disputes will ever occur) and can be either binding or [non-binding](http://en.wikipedia.org/wiki/Non-binding_arbitration). Non-binding arbitration is similar to mediation in that a decision cannot be imposed on the parties. However, the principal distinction is that whereas a mediator will try to help the parties find a middle ground on which to compromise, the (non-binding) arbitrator remains totally removed from the settlement process and will only give a determination of liability and, if appropriate, an indication of the quantum of damages payable. By one definition arbitration is binding and so non-binding arbitration is technically not arbitration.

Arbitration is a proceeding in which a dispute is resolved by an impartial adjudicator whose decision the parties to the dispute have agreed, or legislation has decreed, will be final and binding. There are limited rights of review and appeal of arbitration awards. Arbitration is not the same as:

* [judicial proceedings](http://en.wikipedia.org/wiki/Litigation), although in some jurisdictions, court proceedings are sometimes referred as arbitrations[[3]](http://en.wikipedia.org/wiki/Arbitration#cite_note-Judicial-2)
* [alternative dispute resolution](http://en.wikipedia.org/wiki/Alternative_dispute_resolution) (or ADR)[[4]](http://en.wikipedia.org/wiki/Arbitration#cite_note-3)
* [expert determination](http://en.wikipedia.org/wiki/Expert_determination)
* [mediation](http://en.wikipedia.org/wiki/Mediation)

Advantages and disadvantages

Parties often seek to resolve their disputes through arbitration because of a number of perceived potential advantages over judicial proceedings:

* when the subject matter of the dispute is highly technical, arbitrators with an appropriate degree of expertise can be appointed (as one cannot "choose the judge" in litigation)[[5]](http://en.wikipedia.org/wiki/Arbitration#cite_note-4)
* arbitration is often faster than litigation in court[[6]](http://en.wikipedia.org/wiki/Arbitration#cite_note-5)
* arbitration can be cheaper and more flexible for businesses
* arbitral proceedings and an arbitral award are generally non-public, and can be made confidential[[7]](http://en.wikipedia.org/wiki/Arbitration#cite_note-6)
* in arbitral proceedings the language of arbitration may be chosen, whereas in judicial proceedings the official language of the country of the competent court will be automatically applied
* because of the provisions of the [New York Convention 1958](http://en.wikipedia.org/wiki/Convention_on_the_Recognition_and_Enforcement_of_Foreign_Arbitral_Awards), arbitration awards are generally easier to enforce in other nations than court judgments
* in most legal systems there are very limited avenues for appeal of an arbitral award, which is sometimes an advantage because it limits the duration of the dispute and any associated liability

Some of the disadvantages include:

* arbitration may become highly complex
* arbitration may be subject to pressures from powerful law firms representing the stronger and wealthier party
* arbitration agreements are sometimes contained in ancillary agreements, or in small print in other agreements, and consumers and employees often do not know in advance that they have agreed to mandatory binding pre-dispute arbitration by purchasing a product or taking a job
* if the arbitration is mandatory and binding, the parties waive their rights to access the courts and to have a judge or jury decide the case
* in some arbitration agreements, the parties are required to pay for the arbitrators, which adds an additional layer of legal cost that can be prohibitive, especially in small consumer disputesin some arbitration agreements and systems, the recovery of attorneys' fees is unavailable, making it difficult or impossible for consumers or employees to get legal representation; however most arbitration codes and agreements provide for the same relief that could be granted in court
* if the arbitrator or the arbitration forum depends on the corporation for repeat business, there may be an inherent incentive to rule against the consumer or employee
* there are very limited avenues for appeal, which means that an erroneous decision cannot be easily overturned
* although usually thought to be speedier, when there are multiple arbitrators on the panel, juggling their schedules for hearing dates in long cases can lead to delays
* in some legal systems, arbitrary awards have fewer enforcement options than judgments; although in the United States arbitration awards are enforced in the same manner as court judgments and have the same effect
* arbitrators are generally unable to enforce interlocutory measures against a party, making it easier for a party to take steps to avoid enforcement of member or a small group of members in arbitration due to increasing legal fees, without explaining to the members the adverse consequences of an unfavourable ruling
* rule of applicable law is not necessarily binding on the arbitrators, although they cannot disregard the law
* discovery may be more limited in arbitration or entirely nonexistent
* the potential to generate billings by attorneys may be less than pursuing the dispute through trial
* unlike court judgments, arbitration awards themselves are not directly enforceable. A party seeking to enforce an arbitration award must resort to judicial remedies, called an action to "confirm" an award
* although grounds for attacking an arbitration award in court are limited, efforts to confirm the award can be fiercely fought, thus necessitating huge legal expenses that negate the perceived economic incentive to arbitrate the dispute in the first place.

# V Contract in Business Law

Contract

A **contract** is an **agreement** entered into voluntarily by **two parties or more** with the **intention** of creating a legal obligation, which may have elements in writing, though contracts can be made orally. The remedy for breach of contract can be "damages" or compensation of money. In equity, the remedy can be [specific performance](http://en.wikipedia.org/wiki/Specific_performance) of the contract or an injunction. Both of these remedies award the party at loss the "benefit of the bargain" or [expectation damages](http://en.wikipedia.org/wiki/Expectation_damages), which are greater than mere [reliance damages](http://en.wikipedia.org/wiki/Reliance_damages), as in [promissory estoppel](http://en.wikipedia.org/wiki/Promissory_estoppel). The parties may be natural persons or [juristic persons](http://en.wikipedia.org/wiki/Legal_personality). A contract is a legally enforceable promise or undertaking that something will or will not occur. The word promise can be used as a legal synonym for contract.[[1]](http://en.wikipedia.org/wiki/Contract#cite_note-0), although care is required as a promise may not have the full standing of a contract, as when it is an agreement without [consideration](http://en.wikipedia.org/wiki/Consideration).

Contract law varies greatly from one jurisdiction to another, including differences in [common law](http://en.wikipedia.org/wiki/Common_law) compared to [civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)), the impact of received law, particularly from England in common law countries, and of law codified in regional legislation. Regarding Australian Contract Law for example, there are 40 relevant acts which impact on the interpretation of contract at the Commonwealth (Federal / national) level, and an additional 26 acts at the level of the state of NSW. In addition there are 6 international instruments or conventions which are applicable for international dealings, such as the United Nations Convention on Contracts for the International Sale of Goods (Vienna Sales Convention)[[2]](http://en.wikipedia.org/wiki/Contract#cite_note-1)

## Elements

At common law, the elements of a contract are offer, acceptance, intention to create legal relations, and consideration.

### Mutual assent

At common law, mutual assent is typically reached through offer and acceptance, that is, when an offer is met with an acceptance that is unqualified and that does not vary the offer's terms. The latter requirement is known as the "mirror image" rule. If a purported acceptance does vary the terms of an offer, it is not an acceptance but a counteroffer and, therefore, simultaneously a rejection of the original offer. The [Uniform Commercial Code](http://en.wikipedia.org/wiki/Uniform_Commercial_Code) notably disposes of the mirror image rule in § 2-207, although the UCC only governs transactions in goods in the USA.

#### Offer and acceptance

The most important feature of a contract is that one [party](http://en.wikipedia.org/wiki/Party_(law)) makes an **offer** for an arrangement that another **accepts**. This can be called a **concurrence of wills** or ***consensus ad idem*** ([meeting of the minds](http://en.wikipedia.org/wiki/Meeting_of_the_minds)) of two or more parties. The concept is somewhat contested. The obvious objection is that a court cannot read minds and the existence or otherwise of agreement is judged objectively, with only limited room for questioning subjective intention: see *Smith v. Hughes*.[[5]](http://en.wikipedia.org/wiki/Contract#cite_note-4) Richard Austen-Baker has suggested that the perpetuation of the idea of 'meeting of minds' may come from a misunderstanding of the Latin term 'consensus ad idem', which actually means 'agreement to the [same] thing'.[[6]](http://en.wikipedia.org/wiki/Contract#cite_note-5) There must be [evidence](http://en.wikipedia.org/wiki/Evidence_(law)) that the parties had each, from an [objective](http://en.wikipedia.org/wiki/Objectivity_(philosophy)) perspective, engaged in conduct manifesting their [assent](http://en.wiktionary.org/wiki/assent), and a contract will be formed when the parties have met such a requirement.[[7]](http://en.wikipedia.org/wiki/Contract#cite_note-6) An objective perspective means that it is only necessary that somebody gives the impression of offering or accepting contractual terms in the eyes of a [reasonable person](http://en.wikipedia.org/wiki/Reasonable_person), not that they actually did want to form a contract.

Offer and acceptance does not always need to be expressed orally or in writing. An [implied contract](http://en.wikipedia.org/wiki/Implied_contract) is one in which some of the terms are not expressed in words. This can take two forms. A contract which is [implied in fact](http://en.wikipedia.org/wiki/Implied_in_fact_contract) is one in which the circumstances imply that parties have reached an agreement even though they have not done so expressly. For example, by going to a doctor for a check-up, a [patient](http://en.wikipedia.org/wiki/Patient) agrees that he will pay a fair price for the service. If one refuses to pay after being examined, the patient has [breached a contract](http://en.wikipedia.org/wiki/Breach_of_contract) implied in fact. A contract which is [implied in law](http://en.wikipedia.org/wiki/Implied_in_law_contract) is also called a [quasi-contract](http://en.wikipedia.org/wiki/Quasi-contract), because it is not in fact a contract; rather, it is a means for the [courts](http://en.wikipedia.org/wiki/Court) to remedy situations in which one party would be [unjustly enriched](http://en.wikipedia.org/wiki/Unjust_enrichment) were he or she not required to [compensate](http://en.wikipedia.org/wiki/Damages) the other. For example, a plumber accidentally installs a sprinkler system in the lawn of the wrong house. The owner of the house had learned the previous day that his neighbour was getting new sprinklers. That morning, he sees the plumber installing them in his lawn. Pleased at the mistake, he says nothing, and then refuses to pay when the plumber delivers the bill. Will the man be held liable for payment? Yes, if it could be proven that the man knew that the sprinklers were being installed mistakenly, the court would make him pay because of a [quasi-contract](http://en.wikipedia.org/wiki/Quasi-contract). If that knowledge could not be proven, he would not be [liable](http://en.wikipedia.org/wiki/Liable). Such a claim is also referred to as "[quantum meruit](http://en.wikipedia.org/wiki/Quantum_meruit)".[[12]](http://en.wikipedia.org/wiki/Contract#cite_note-11)

### Consideration

[Consideration](http://en.wikipedia.org/wiki/Consideration) is something of value given by a promissor to a promisee in exchange for something of value given by a promisee to a promissor. Typically, the thing of value is a payment, although it may be an act, or forbearance to act, when one is privileged to do so, such as an adult refraining from smoking.

Consideration consists of a legal detriment and a bargain. A legal detriment is a promise to do something or refrain from doing something that you have the legal right to do, or voluntarily doing or refraining from doing something, in the context of an agreement. A bargain is something the promisor (the party making promise or offer) wants, usually being one of the legal detriments. The legal detriment and bargain principles come together in consideration and create an exchange relationship, where both parties agree to exchange something that the other wishes to have.

The purpose of consideration is to ensure that there is a present bargain, that the promises of the parties are reciprocally induced. The classic theory of consideration required that a promise be of detriment to the promissor or benefit to the promisee. This is no longer the case in the USA; typically, courts will look to a bargained-for exchange, rather than making inquiries into whether an individual was subject to a detriment or not. The emphasis is on the bargaining process, not an inquiry into the relative value of consideration. This principle was articulated in [Hamer v. Sidway](http://en.wikipedia.org/wiki/Hamer_v._Sidway). Yet in cases of ambiguity, courts will occasionally turn to the common law benefit/detriment analysis to aid in the determination of the enforceability of a contract.

#### Sufficiency

Consideration must be *sufficient*, but courts will not weight the *adequacy* of consideration. For instance, agreeing to sell a car for a penny may constitute a binding contract.[[13]](http://en.wikipedia.org/wiki/Contract#cite_note-12) All that must be shown is that the seller actually wanted the penny. This is known as the *peppercorn rule*. Otherwise, the penny would constitute *nominal consideration*, which is insufficient. Parties may do this for tax purposes, attempting to disguise gift transactions as contracts.

Transfer of money is typically recognized as an example of sufficient consideration, but in some cases it will not suffice, for example, when one party agrees to make partial payment of a debt in exchange for being released from the full amount.[[14]](http://en.wikipedia.org/wiki/Contract#cite_note-13)

*Past consideration* is not sufficient. Indeed, it is an [oxymoron](http://en.wikipedia.org/wiki/Oxymoron). For instance, in *Eastwood v. Kenyon*,[[15]](http://en.wikipedia.org/wiki/Contract#cite_note-14) the guardian of a young girl obtained a loan to educate the girl and to improve her marriage prospects. After her marriage, her husband promised to pay off the loan. It was held that the guardian could not enforce the promise because taking out the loan to raise and educate the girl was past consideration—it was completed before the husband promised to repay it.

The insufficiency of past consideration is related to the *pre-existing duty rule.* The classic instance is *Stilk v. Myrick*,[[16]](http://en.wikipedia.org/wiki/Contract#cite_note-15) in which a captain's promise to divide the wages of two deserters among the remaining crew if they would sail home from the Baltic short-handed, was found unenforceable on the grounds that the crew were already contracted to sail the ship through all perils of the sea.

The pre-existing duty rule also extends beyond an underlying contract. It would not constitute sufficient consideration for a party to promise to refrain from committing a tort or crime, for example.[[17]](http://en.wikipedia.org/wiki/Contract#cite_note-16) However, a promise from A to do something for B if B will perform a contractual obligation B owes to C, will be enforceable - B is suffering a [legal detriment](http://en.wikipedia.org/wiki/Legal_detriment) by making his performance of his contract with A effectively enforceable by C as well as by A.[[18]](http://en.wikipedia.org/wiki/Contract#cite_note-17)

Consideration must move from the promisee. For instance, it is good consideration for person A to pay person C in return for services rendered by person B. If there are joint promisees, then consideration need only to move from one of the promisees.

#### Other jurisdictions

Roman law-based systems [[19]](http://en.wikipedia.org/wiki/Contract#cite_note-18) (including Scotland) do not require consideration, and some commentators consider it unnecessary—the requirement of intent by both parties to create legal relations by both parties performs the same function under contract. The reason that both exist in common law jurisdictions is thought by leading scholars to be the result of the combining by 19th century judges of two distinct threads: first the consideration requirement was at the heart of the action of [assumpsit](http://en.wikipedia.org/wiki/Assumpsit), which had grown up in the Middle Ages and remained the normal action for breach of a simple contract in England & Wales until 1884, when the old forms of action were abolished; secondly, the notion of agreement between two or more parties as being the essential legal and moral foundation of contract in all legal systems, promoted by the 18th century French writer Pothier in his *Traite des Obligations*, much read (especially after translation into English in 1805) by English judges and jurists. The latter chimed well with the fashionable will theories of the time, especially [John Stuart Mill](http://en.wikipedia.org/wiki/John_Stuart_Mill)'s influential ideas on free will, and got grafted on to the traditional common law requirement for consideration to ground an action in assumpsit.[[20]](http://en.wikipedia.org/wiki/Contract#cite_note-19)

[Civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)) systems take the approach that an exchange of promises, or a concurrence of wills alone, rather than an exchange in valuable rights is the correct basis. So if you promised to give me a book, and I accepted your offer without giving anything in return, I would have a legal right to the book and you could not change your mind about giving me it as a gift. However, in [common law systems](http://en.wikipedia.org/wiki/Common_law_system) the concept of [culpa in contrahendo](http://en.wikipedia.org/wiki/Culpa_in_contrahendo), a form of '[estoppel](http://en.wikipedia.org/wiki/Estoppel)', is increasingly used to create obligations during pre-contractual negotiations.[[21]](http://en.wikipedia.org/wiki/Contract#cite_note-20) Estoppel is an [equitable doctrine](http://en.wikipedia.org/wiki/Equity_(law)) that provides for the creation of legal obligations if a party has given another an [assurance](http://en.wiktionary.org/wiki/assurance) and the other has relied on the assurance to his [detriment](http://en.wikipedia.org/wiki/Detriment_(law)). A number of commentators have suggested that consideration be abandoned, and estoppel be used to replace it as a basis for contracts.[[22]](http://en.wikipedia.org/wiki/Contract#cite_note-21) However, [legislation](http://en.wikipedia.org/wiki/Legislation), rather than judicial development, has been touted as the only way to remove this entrenched common law doctrine. [Lord Justice Denning](http://en.wikipedia.org/wiki/Lord_Denning) famously stated that "The doctrine of consideration is too firmly fixed to be overthrown by a side-wind."[[23]](http://en.wikipedia.org/wiki/Contract#cite_note-22)

Formation

In addition to the elements of a contract:

* a party must have capacity to contract;
* the purpose of the contract must be lawful;
* the form of the contract must be legal;
* the parties must intend to create a legal relationship; and
* the parties must consent.

As a result, there are a variety of affirmative defences that a party may assert to avoid his obligation.

Affirmative defences

Vitiating factors constituting defences to purported contract formation include:

* [mistake](http://en.wikipedia.org/wiki/Mistake_(contract_law));
* [incapacity](http://en.wikipedia.org/wiki/Capacity_(law)), including mental incompetence and infancy/minority;
* [duress](http://en.wikipedia.org/wiki/Duress#In_contract_law);
* [undue influence](http://en.wikipedia.org/wiki/Undue_influence);
* [unconscionability](http://en.wikipedia.org/wiki/Unconscionability);
* [misrepresentation](http://en.wikipedia.org/wiki/Misrepresentation)/fraud; and
* [frustration of purpose](http://en.wikipedia.org/wiki/Frustration_of_purpose).

Such defences operate to determine whether a purported contract is either (1) void or (2) voidable. Void contracts cannot be ratified by either party. Voidable contracts *can* be ratified.

Bilateral and unilateral contracts

Contracts may be [bilateral](http://en.wiktionary.org/wiki/Bilateral) or [unilateral](http://en.wikipedia.org/wiki/Unilateral). A [bilateral contract](http://en.wikipedia.org/wiki/Bilateral_contract) is an agreement in which each of the parties to the contract makes a [promise](http://en.wikipedia.org/wiki/Promise) or set of promises to the other party or parties. For example, in a contract for the sale of a home, the buyer promises to pay the seller $200,000 in exchange for the seller's promise to deliver title to the property.

In a unilateral contract, only one party to the contract makes a promise. A typical example is the reward contract: A promises to pay a reward to B if B finds A's dog. B is *not* under an obligation to find A's dog, but A *is* under an obligation to pay the reward to B if B does find the dog. The consideration for the contract here is B's reliance on A's promise or B giving up his legal right to do whatever he wanted at the time he was engaged in the finding of the dog.

In this example, the finding of the dog is a condition precedent to A's obligation to pay, although it is not a legal [condition precedent](http://en.wikipedia.org/wiki/Condition_precedent), because technically no contract here has arisen until the dog is found (because B has not accepted A's offer until he finds the dog, and a contract requires offer, acceptance, and consideration), and the term "condition precedent" is used in contract law to designate a condition of a promise in a contract. For example, if B *promised* to find A's dog, and A promised to pay B when the dog was found, A's promise would have a condition attached to it, and offer and acceptance would already have occurred. This is a situation in which a condition precedent is attached to a bilateral contract.

Conditions precedent can also be attached to unilateral contracts, however. This would require A to require a further condition to be met before he pays B for finding his dog. So, for example, A could say "If anyone finds my dog, and the sky falls down, I will give that person $100." In this situation, even if the dog is found by B, he would not be entitled to the $100 until the sky falls down. Therefore the sky falling down is a condition precedent to A's duty being actualized, even though they are already in a contract, since A has made an offer and B has accepted.

An [offer](http://en.wikipedia.org/wiki/Offer_and_acceptance) of a unilateral contract may often be made to many people (or 'to the world') by means of an [advertisement](http://en.wikipedia.org/wiki/Advertisement). (The general rule is that advertisements are not offers.) In the situation where the unilateral offer is made to many people, [acceptance](http://en.wikipedia.org/wiki/Acceptance) will only occur on complete performance of the [condition](http://en.wikipedia.org/wiki/Covenant_(law)) (in other words, by completing the performance that the offeror seeks, which is what the advertisement requests from the offerees - to actually find the dog). If the condition is something that only one party can perform, both the [offeror](http://en.wikipedia.org/wiki/Offeror) and [offeree](http://en.wikipedia.org/wiki/Offeree) are protected – the offeror is protected because he will only ever be contractually obliged to one of the many offerees, and the offeree is protected because if she does perform the condition, the offeror will be contractually obligated to pay her.

In unilateral contracts, the requirement that acceptance be communicated to the offeror is [waived](http://en.wikipedia.org/wiki/Waived) unless otherwise stated in the offer. The offeree accepts by performing the condition, and the offeree's performance is also treated as the price, or consideration, for the offeror's promise. The offeror is master of the offer; it is he who decides whether the contract will be unilateral or bilateral. In unilateral contracts, the offer is made to the public at large.

A bilateral contract is one in which there are duties on both sides, rights on both sides, and consideration on both sides. If an offeror makes an offer such as "If you promise to paint my house, I will give you $100," this is a bilateral contract once the offeree accepts. Each side has promised to do something, and each side will get something in return for what they have done.

Arbitration clause

An **arbitration clause** is a commonly used clause in a [contract](http://en.wikipedia.org/wiki/Contract) that requires the parties to resolve their disputes through an [arbitration](http://en.wikipedia.org/wiki/Arbitration) process. Although such a clause may or may not specify that arbitration occur within a specific [jurisdiction](http://en.wikipedia.org/wiki/Jurisdiction), it always binds the parties to a type of resolution outside of the [courts](http://en.wikipedia.org/wiki/Court), and is therefore considered a kind of [forum selection clause](http://en.wikipedia.org/wiki/Forum_selection_clause).

In the [United States](http://en.wikipedia.org/wiki/United_States), the federal government has expressed a policy of support of arbitration clauses, because they reduce the burden on court systems to resolve disputes. This support is found in the [Federal Arbitration Act](http://en.wikipedia.org/wiki/Federal_Arbitration_Act), which permits compulsory and binding arbitration, under which parties give up the right to appeal an arbitrator's decision to a court. In [*Prima Paint Corp. v. Flood & Conklin Mfg. Co.*](http://en.wikipedia.org/wiki/Prima_Paint_Corp._v._Flood_%26_Conklin_Mfg._Co.), the U.S. Supreme Court established the "separability principle", under which enforceability of a contract must be challenged in arbitration before any court action, unless the arbitration clause itself has been challenged.

Furthermore, arbitration clauses are often combined with geographic forum selection clauses, and [choice-of-law clauses](http://en.wikipedia.org/wiki/Choice-of-law_clause), both of which are also fully enforceable. The result is that a plaintiff may find himself or herself compelled to arbitrate in a strange private forum thousands of miles from home, and the arbitrators may decide the case on the basis of the law of a state or a nation which the plaintiff has never visited.

Some legal orders exclude or restrict the possibility of arbitration for reasons of the protection of weaker members of the public, e.g. consumers. E.g., German law excludes disputes over the rental of living space from any form of arbitration,[[2]](http://en.wikipedia.org/wiki/Arbitration_clause#cite_note-1) while arbitration agreements with consumers are only considered valid if they are signed,[[3]](http://en.wikipedia.org/wiki/Arbitration_clause#cite_note-2) and if the signed document does not bear any other content than the arbitration agreement.[[4]](http://en.wikipedia.org/wiki/Arbitration_clause#cite_note-3) The restriction does not apply to notarized agreements, as it is presumed that the notary public will have well informed the consumer about the content and its implications.

Exclusion clause

An **exclusion clause** is a [term](http://en.wikipedia.org/wiki/Contractual_Term) in a [contract](http://en.wikipedia.org/wiki/Contract) that seeks to restrict the rights of the parties to the [contract](http://en.wikipedia.org/wiki/Contract).

Traditionally, the district [courts](http://en.wikipedia.org/wiki/Court) have sought to limit the operation of exclusion clauses. In addition to numerous [common law](http://en.wikipedia.org/wiki/Common_law) rules limiting their operation, in [England and Wales](http://en.wikipedia.org/wiki/England_and_Wales), the main [statutory](http://en.wikipedia.org/wiki/Statutory) interventions are the [Unfair Contract Terms Act 1977](http://en.wikipedia.org/wiki/Unfair_Contract_Terms_Act_1977) and the [Unfair Terms in Consumer Contracts Regulations 1999](http://en.wikipedia.org/wiki/Unfair_Terms_in_Consumer_Contracts_Regulations_1999). The [Unfair Contract Terms Act 1977](http://en.wikipedia.org/wiki/Unfair_Contract_Terms_Act_1977) applies to all contracts, but the [Unfair Terms in Consumer Contracts Regulations 1999](http://en.wikipedia.org/wiki/Unfair_Terms_in_Consumer_Contracts_Regulations_1999), unlike the [common law](http://en.wikipedia.org/wiki/Common_law) rules, do differentiate between [contracts](http://en.wikipedia.org/wiki/Contract) between businesses and [contracts](http://en.wikipedia.org/wiki/Contract) between business and [consumer](http://en.wikipedia.org/wiki/Consumer), so the [law](http://en.wikipedia.org/wiki/Law) seems to explicitly recognize the greater possibility of exploitation of the [consumer](http://en.wikipedia.org/wiki/Consumer) by businesses.

Types of Exclusion Clause

* **True exclusion clause:** The clause recognises a potential [breach of contract](http://en.wikipedia.org/wiki/Breach_of_contract), and then excuses liability for the [breach](http://en.wikipedia.org/wiki/Breach_of_contract). Alternatively, the clause is constructed in such a way it only includes reasonable care to perform duties on one of the parties.
* **Limitation clause:** The clause places a limit on the amount that can be claimed for a [breach of contract](http://en.wikipedia.org/wiki/Breach_of_contract), regardless of the actual loss.
* **Time limitation:** The clause states that an action for a claim must be commenced within a certain period of time or the cause of action becomes extinguished.

Term must be incorporated

The [courts](http://en.wikipedia.org/wiki/Court) have traditionally held that exclusion clauses only operate if they are actually part of the [contract](http://en.wikipedia.org/wiki/Contract). There seem to be three methods of incorporation:

* **Incorporation by signature**
* **Incorporation by notice**
* **Incorporation by previous course of dealings**

Force majeure

***Force majeure*** (French) or [***vis major***](http://en.wikipedia.org/wiki/Vis_major) (Latin) "superior force", also known as ***cas fortuit*** (French) or ***casus fortuitus***(Latin) "chance occurrence, unavoidable accident",[[2]](http://en.wikipedia.org/wiki/Force_majeure#cite_note-1) is a common clause in [contracts](http://en.wikipedia.org/wiki/Contract) that essentially frees both parties from [liability](http://en.wikipedia.org/wiki/Legal_liability) or obligation when an extraordinary event or circumstance beyond the control of the parties, such as a [war](http://en.wikipedia.org/wiki/War), [strike](http://en.wikipedia.org/wiki/Strike_action), [riot](http://en.wikipedia.org/wiki/Riot), crime, or an event described by the legal term [*act of God*](http://en.wikipedia.org/wiki/Act_of_God) (such as [hurricane](http://en.wikipedia.org/wiki/Hurricane), [flooding](http://en.wikipedia.org/wiki/Flooding), [earthquake](http://en.wikipedia.org/wiki/Earthquake), [volcanic eruption](http://en.wikipedia.org/wiki/Volcanic_eruption), etc.), prevents one or both parties from fulfilling their obligations under the contract. In practice, most force majeure clauses do not excuse a party's non-performance entirely, but only suspends it for the duration of the force majeure. [[3]](http://en.wikipedia.org/wiki/Force_majeure#cite_note-2)[[4]](http://en.wikipedia.org/wiki/Force_majeure#cite_note-3)

Force majeure is generally intended to include risks beyond the reasonable control of a party, incurred not as a product or result of the [negligence](http://en.wikipedia.org/wiki/Negligence) or [malfeasance](http://en.wikipedia.org/wiki/Malfeasance) of a party, which have a materially adverse effect on the ability of such party to perform its obligations[[5]](http://en.wikipedia.org/wiki/Force_majeure#cite_note-obligations-4), as where non-performance is caused by the usual and natural consequences of external forces (for example, predicted rain stops an outdoor event), or where the intervening circumstances are specifically contemplated.

Addendum

An **addendum**, in general, is an addition required to be made to a document by its reader subsequent to its printing or publication. It comes from the [Latin](http://en.wikipedia.org/wiki/Latin) verbal phrase *addendum est*, being the [gerundive](http://en.wikipedia.org/wiki/Gerundive) form of the verb *addo, addere, addidi, additum*, "to give to, add to",[[1]](http://en.wikipedia.org/wiki/Addendum#cite_note-0) meaning "(that which) must be added". *Addenda* is from the plural form *addenda sunt*, "(those things) which must be added". (See also [Memorandum](http://en.wikipedia.org/wiki/Memorandum), [Agenda](http://en.wikipedia.org/wiki/Agenda_(meeting)), [Corrigenda](http://en.wikipedia.org/wiki/Corrigenda)).

In contracts

An addendum is an additional document not included in the main part of the contract which may contain additional terms, specifications, provisions, standard forms or other information. A contract addendum may also be called an **appendix**, an **annex**, or a **rider**.

Addenda are often used in standard form contracts to make changes or add specific detail. For example, an addendum might be added to a contract to change a date or add details as to delivery of goods or pricing. The addendum should be referenced in the contract, or the contract should be referenced in the addendum, so that it is clear which contract the addendum is modifying.

A rider is often used to add specific detail and especially specific conditions to a *standard* contract such as an insurance contract. A rider may also be added to [a piece of legislation](http://en.wikipedia.org/wiki/Rider_(law)).

**Schedules** and **exhibits** are sub-categories of addenda, with schedules being related to numerical and time information, such as pricing and time-schedules, and exhibits used for examples of standard forms and different types of evidence or models. Exhibits are often used in legal documents submitted to a court as part of judicial proceedings such as statements of claim and briefs.

Letter of intent

[](http://en.wikipedia.org/wiki/File:Loi_m.gif)

[magnify-clip](http://en.wikipedia.org/wiki/File:Loi_m.gif)

A typical LOI

A **letter of intent** (**LOI** or **LoI**, and sometimes capitalized as *Letter of Intent* in legal writing, but only when referring to a specific document under discussion) is a document outlining an agreement between two or more parties before the agreement is finalized. The concept is similar to a [heads of agreement](http://en.wikipedia.org/wiki/Heads_of_agreement_(law)). Such agreements may be Asset Purchase Agreements, Share Purchase Agreements, Joint-Venture Agreements and overall all Agreements which aim at closing a financially large deal.

LOIs resemble written [contracts](http://en.wikipedia.org/wiki/Contract), but are usually not binding on the parties in their entirety. Many LOIs, however, contain provisions that are binding, such as [non-disclosure agreements](http://en.wikipedia.org/wiki/Non-disclosure_agreement), a [covenant](http://en.wikipedia.org/wiki/Covenant_(law)) to negotiate in [good faith](http://en.wikipedia.org/wiki/Good_faith), or a "stand-still" or "no-shop" provision promising exclusive rights to negotiate. A LOI may sometimes be interpreted by a court of law as binding the parties to it, if it too-closely resembles a formal contract.

The most common purposes of an LOI are:

* To clarify the key points of a complex transaction for the convenience of the parties
* To declare officially that the parties are currently negotiating, as in a [merger](http://en.wikipedia.org/wiki/Merger) or [joint venture](http://en.wikipedia.org/wiki/Joint_venture) proposal
* To provide safeguards in case a deal collapses during negotiation.

An LOI may also be referred to as a [*term sheet*](http://en.wikipedia.org/wiki/Term_sheet) or *discussion sheet*. The terms reflect different styles (an LOI is typically written in letter form and focuses on the parties' intentions; a term sheet skips formalities and lists deal terms in a bullet-point summary), but usually do not indicate any difference under law. A *contract*, by contrast, is a legal document governed by [contract law](http://en.wikipedia.org/wiki/Contract_law). Furthermore, there is also a specific difference between a letter of intent and a [*memorandum of understanding*](http://en.wikipedia.org/wiki/Memorandum_of_understanding) (MOU); an LOI outlines the intent of one party toward another with regard to an agreement, and may only be signed by the party expressing that intent, whereas an MOU must be signed by all parties to be a valid outline of an agreement. Nevertheless, LOIs are fairly often incorrectly referred to as MOUs and vice versa.

Standard form contract

A **standard form contract** (sometimes referred to as an **adhesion** or **boilerplate** contract) is a [contract](http://en.wikipedia.org/wiki/Contract) between two parties where the terms and conditions of the contract are set by one of the parties, and the other party is placed in a "take it or leave it" position with little or no ability to negotiate terms more favourable to it.

Examples of standard form contracts are insurance policies (where the insurer decides what it will and will not insure, and the language of the contract) and contracts with government agencies (where certain clauses must be included by law or regulation).

While these types of contracts, in and of themselves, are not illegal *per se*, there exists a very real possibility for [unconscionability](http://en.wikipedia.org/wiki/Unconscionability).

Output contract

An **output contract** is an [agreement](http://en.wikipedia.org/wiki/Contract) in which a producer agrees to sell an extremely small amount of its entire production to the buyer, who in turn agrees to purchase the entire output, once it is determined the product is satisfactory. Example: an almond grower enters into an *output contract* with an almond packer: thus the producer has a "home" for output of nuts, and the packer of nuts is happy to try the particular product. The converse of this situation is a [requirements contract](http://en.wikipedia.org/wiki/Requirements_contract), under which a seller agrees to supply the buyer with as much of a good or service as the buyer wants, in exchange for the buyer's agreement not to buy that good or service elsewhere.

[Uniform Commercial Code](http://en.wikipedia.org/wiki/Uniform_Commercial_Code) comment section 2-306: A term which measures the quantity by the output of the seller or the requirements of the buyer, means such actual output or requirements that may occur in good faith. [Good faith](http://en.wikipedia.org/wiki/Good_faith) cessation of production terminates any further obligations thereunder and excuses further performance by the party discontinuing production. However, the cessation of production must be in light of [bankruptcy](http://en.wikipedia.org/wiki/Bankruptcy) or other similar situations. The yield of less profit from a sale than expected does not excuse further performance of an output contract.

Aleatory contract

An [**aleatory**](http://en.wikipedia.org/wiki/Aleatory)**contract** is a [contract](http://en.wikipedia.org/wiki/Contract) in which the performance of one or both parties is contingent upon the occurrence of a particular event. The most common type of aleatory contract are [insurance](http://en.wikipedia.org/wiki/Insurance) policies.[[1]](http://en.wikipedia.org/wiki/Aleatory_contract#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Aleatory_contract#cite_note-1) Such insurance contracts may be a boon to one party but create a major loss for the other, as more in benefits may be paid out than actual premiums received, or vice versa.[[3]](http://en.wikipedia.org/wiki/Aleatory_contract#cite_note-2)

The term was a classification developed in later medieval [Roman law](http://en.wikipedia.org/wiki/Roman_law) to cover all contracts whose fulfilment depended on chance, including [gambling](http://en.wikipedia.org/wiki/Gambling), [insurance](http://en.wikipedia.org/wiki/Insurance), speculative investment and [life annuities](http://en.wikipedia.org/wiki/Life_annuity).[[4]](http://en.wikipedia.org/wiki/Aleatory_contract#cite_note-3) Many modern forms of [derivatives](http://en.wikipedia.org/wiki/Derivative_(finance)) and [options](http://en.wikipedia.org/wiki/Option_(finance)) may in some cases also be considered aleatory contracts. For example, the [French civil code](http://en.wikipedia.org/wiki/French_civil_code) contains a chapter on aleatory contracts, with specific provisions for gaming (gambling) and [life annuities](http://en.wikipedia.org/wiki/Life_annuity).[[5]](http://en.wikipedia.org/wiki/Aleatory_contract#cite_note-4)

Breach of contract

**Breach of contract** is a [legal](http://en.wikipedia.org/wiki/Legal) [cause of action](http://en.wikipedia.org/wiki/Cause_of_action) in which a [binding agreement](http://en.wikipedia.org/wiki/Binding_agreement) or bargained-for exchange is not honoured by one or more of the parties to the contract by non-performance or interference with the other party's performance. If the party does not fulfil his contractual promise, or has given information to the other party that he will not perform his duty as mentioned in the contract or if by his action and conduct he seems to be unable to perform the contract, he is said to breach the contract.[[1]](http://en.wikipedia.org/wiki/Breach_of_contract#cite_note-0)

Breach of contract is a type of [civil wrong](http://en.wikipedia.org/wiki/Civil_wrong).[[2]](http://en.wikipedia.org/wiki/Breach_of_contract#cite_note-1)

Minor breaches

In a "minor" breach (a partial breach or immaterial breach or where there has been substantial performance), the non-breaching party cannot sue for [specific performance](http://en.wikipedia.org/wiki/Specific_performance), and can only sue for actual [damages](http://en.wikipedia.org/wiki/Damages).

Suppose a homeowner hires a contractor to install new plumbing and insists that the pipes, which will ultimately be hidden behind the walls, must be red. The contractor instead uses blue pipes that function just as well. Although the contractor breached the literal terms of the [contract](http://en.wikipedia.org/wiki/Contract), the homeowner cannot ask a court to order the contractor to replace the blue pipes with red pipes. The homeowner can only recover the amount of his or her actual damages. In this instance, this is the difference in value between red pipe and blue pipe. Since the colour of a pipe does not affect its function, the difference in value is zero. Therefore, no damages have been incurred and the homeowner would receive nothing. (*See* [Jacob & Youngs v. Kent](http://en.wikipedia.org/wiki/Jacob_%26_Youngs_v._Kent).)

However, had the pipe colour been specified in the agreement as a [*condition*](http://en.wikipedia.org/wiki/Covenant_(law)), a breach of that condition would constitute a "major" breach. For example, when a contract specifies [time is of the essence](http://en.wikipedia.org/wiki/Time_is_of_the_essence) and one party to the contract fails to meet a contractual obligation in a timely fashion, the other party could sue for damages for a major breach.

Material breach

A *material breach* is any failure to perform that permits the other party to the contract to either compel performance, or collect damages because of the breach. If the contractor in the above example had been instructed to use copper pipes, and instead used iron pipes that would not last as long as the copper pipes would have lasted, the homeowner can recover the cost of actually correcting the breach - taking out the iron pipes and replacing them with copper pipes.

There are exceptions to this. Legal scholars and courts often state that the owner of a house whose pipes are not the specified grade or quality (a typical hypothetical example) cannot recover the cost of replacing the pipes for the following reasons:

1. Economic waste. The law does not favour tearing down or destroying something that is valuable (almost anything with value is "valuable"). In this case, significant destruction of the house would be required to completely replace the pipes, and so the law is hesitant to enforce damages of that nature [[3]](http://en.wikipedia.org/wiki/Breach_of_contract#cite_note-2) .

2. Pricing in. In most cases of breach, a party to the contract simply fails to perform one or more terms. In those cases, the breaching party should have already considered the cost to perform those terms and thus "keeps" that cost when they do not perform. That party should not be entitled to keep that savings. However, in the pipe example the contractor never considered the cost of tearing down a house to fix the pipes, and so it is not reasonable to expect them to pay damages of that nature.

Most homeowners would be unable to collect damages that compensate them for replacing the pipes, but rather would be awarded damages that compensate them for the *loss of value* in the house. For example, say the house is worth $125,000 with copper and $120,000 with iron pipes. The homeowner would be able to collect the $5,000 difference, and nothing more.

Fundamental breach

A [*fundamental breach*](http://en.wikipedia.org/wiki/Fundamental_breach) (or *repudiatory breach*) is a breach so fundamental that it permits the aggrieved party to terminate performance of the contract. In addition that party is entitled to [sue](http://en.wikipedia.org/wiki/Lawsuit) for damages.

Anticipatory breach

A *breach by*[*anticipatory repudiation*](http://en.wikipedia.org/wiki/Anticipatory_repudiation) (or simply *anticipatory breach*) is an unequivocal indication that the party will not perform when performance is due, or a situation in which future non-performance is inevitable. An anticipatory breach gives the non-breaching party the option to treat such a breach as immediate, and, if repudiatory, to terminate the contract and sue for damages (without waiting for the breach to actually take place). For example, A contracts with B on January 1st to sell 500 quintals of wheat and to deliver it on May 1st. Subsequently, on April 15th A writes to B and says that he will not deliver the wheat. B may immediately consider the breach to have occurred and file a suit for damages without waiting until after May 1st for the scheduled performance, even though A has until May 1st to perform.

Conflict of contract laws

In the [conflict of laws](http://en.wikipedia.org/wiki/Conflict_of_laws), the validity of a [**contract**](http://en.wikipedia.org/wiki/Contract) with one or more foreign law elements will be decided by reference to the so-called "[proper law](http://en.wikipedia.org/wiki/Proper_law)" of the contract.

## Proper law

The *proper law* of the contract is the main system of law applied to decide the validity of most aspects to the contract including its formation, validity, interpretation, and performance. This does not deny the power of the parties to agree that different aspects of the contract shall be governed by different systems of law. But, in the absence of such express terms, the court will not divide the *proper law* unless there are unusually compelling circumstances. And note the general rule of the [lex fori](http://en.wikipedia.org/wiki/Lex_fori) which applies the provisions of the *proper law* as it is when the contract is to be performed and not as it was when the contract was made.

The parties to a valid contract are bound to do what they have promised. So, to be consistent, the Doctrine of Proper Law examines the [parties'](http://en.wikipedia.org/wiki/Party_(law)) intention as to which law is to govern the contract. The claimed advantage of this approach is that it satisfies more abstract considerations of [justice](http://en.wikipedia.org/wiki/Justice) if the parties are bound by the law they have chosen. But it raises the question of whether the test is to be subjective, i.e. the law actually intended by the parties, or objective, i.e. the law will [impute](http://en.wikipedia.org/wiki/Imputation_(law)) the intention which reasonable men in their position would probably have had. It cannot safely be assumed that the parties did actually consider which of the several possible laws might be applied when they were negotiating the contract. Hence, although the courts would prefer the subjective approach because this gives effect the parties' own wishes, the objective test has gained in importance. So the *proper law* test today is three-stage:

* it is the law intended by the parties when the contract was made which is usually evidenced by an express [choice of law clause](http://en.wikipedia.org/wiki/Choice_of_law_clause); or
* it is implied by the court because either the parties incorporated actual legal terminology or provisions specific to one legal system, or because the contract would only be valid under one of the potentially relevant systems; or
* if there is no express or implied choice, it is the law which has the closest and most real connection to the bargain made by the parties.

It is only fair to admit that the task of imputing an intention to the parties in the third situation presents the courts with another opportunity for uncertainty and arbitrariness, but this overall approach is nevertheless felt to be the lesser of the available evils.

### Express selection

When the parties express a clear intention in a formal clause, there is a rebuttable presumption that this is the *proper law* because it reflects the parties' freedom of contract and it produces certainty of outcome. It can only be rebutted when the choice is not *bona fide*, it produces illegality, or it breaches public policy. For example, the parties may have selected the particular law to evade the operation of otherwise mandatory provisions of the law which has the closest connection with the contract. The parties are not free to put themselves above the law and, in such cases, it will be for the parties to prove that there is a valid reason for selecting that law other than evasion.

### Implied selection

When the parties have not used express words, their intention may be inferred from the terms and nature of the contract, and from the general circumstances of the case. For example, a term granting the courts of a particular state exclusive jurisdiction over the contract would imply that the *lex fori* is to be the *proper law* (see [forum selection clause](http://en.wikipedia.org/wiki/Forum_selection_clause)).

### Closest and most real connection

In default, the court has to impute an intention by asking, as just and reasonable persons, which law the parties ought to, or would, have intended to nominate if they had thought about it when they were making the contract. In arriving at its decision, the court uses a list of connecting factors, i.e. facts which have an unambiguous geographical connection, and whichever law scores the most hits on a league table created from the list will be considered the *proper law*. The current list of factors includes the following:

* the [habitual residence](http://en.wikipedia.org/wiki/Habitual_residence)/[domicile](http://en.wikipedia.org/wiki/Domicile_(law))/[nationality](http://en.wikipedia.org/wiki/Nationality) of the parties;
* the parties' main places of business and of [incorporation](http://en.wikipedia.org/wiki/Incorporation_(business));
* the place nominated for any [arbitration](http://en.wikipedia.org/wiki/Arbitration) proceedings in the event of a dispute (the [lex loci arbitri](http://en.wikipedia.org/wiki/Lex_loci_arbitri));
* the [language](http://en.wikipedia.org/wiki/Language) in which the contract documents is written;
* the [format](http://en.wikipedia.org/wiki/Text_formatting) of the documents, e.g. if a form is only found in one relevant country, this suggests that the parties intended the law of that country to be the proper law;
* the [currency](http://en.wikipedia.org/wiki/Currency) in which any payment is to be made;
* the [flag](http://en.wikipedia.org/wiki/Flag) of any ship involved;
* the place where the contract is made (which may not be obvious where negotiations were concluded by letter, fax or e-mail);
* the place(s) where performance is to occur;
* any pattern of dealing established in previous transactions involving the same parties; and
* where any [insurance](http://en.wikipedia.org/wiki/Insurance) companies or relevant third parties are located.

### Dépeçage

Some legal systems provide that a contract may be governed by more than one law. This concept is referred to as [dépeçage](http://en.wikipedia.org/wiki/D%C3%A9pe%C3%A7age). Article 3(1) of the [Rome Convention on the law applicable to contractual obligations](http://en.wikipedia.org/wiki/Rome_Convention_(contract)) expressly recognises dépeçage in contracting states.

Law of agency

The **law of agency** is an area of [commercial law](http://en.wikipedia.org/wiki/Commercial_law) dealing with a set of [contractual](http://en.wikipedia.org/wiki/Contract), [quasi-contractual](http://en.wikipedia.org/wiki/Quasi-contract) and non-contractual relationships that involve a person, called the **agent**, that is authorized to act on behalf of another (called the [principal](http://en.wikipedia.org/wiki/Principal_(commercial_law))) to create a legal relationship with a third party.[[1]](http://en.wikipedia.org/wiki/Law_of_agency#cite_note-0) Succinctly, it may be referred to as the relationship between a principal and an agent whereby the principal, expressly or impliedly, authorizes the agent to work under his control and on his behalf. The agent is, thus, required to negotiate on behalf of the principal or bring him and third parties into contractual relationship. This branch of law separates and regulates the relationships between:

* Agents and principals;
* Agents and the third parties with whom they deal on their principals' behalf; and
* Principals and the third parties when the agents purport to deal on their behalf.

The [common law](http://en.wikipedia.org/wiki/Common_law) principle in operation is usually represented in the [Latin](http://en.wikipedia.org/wiki/Latin) phrase, *qui facit per alium, facit per se*, i.e. *the one who acts through another, acts in his or her own interests* and it is a parallel concept to [vicarious liability](http://en.wikipedia.org/wiki/Vicarious_liability) and [strict liability](http://en.wikipedia.org/wiki/Strict_liability) in which one person is held liable in [criminal law](http://en.wikipedia.org/wiki/Criminal_law) or [tort](http://en.wikipedia.org/wiki/Tort) for the acts or omissions of another.

In India, section 182 of the [Contract Act 1872](http://en.wikipedia.org/wiki/Indian_Contract_Act_1872) defines Agent as “a person employed to do any act for another or to represent another in dealings with third persons”.[[2]](http://en.wikipedia.org/wiki/Law_of_agency#cite_note-1)

The concepts

The reciprocal rights and liabilities between a principal and an agent reflect commercial and legal realities. A business owner often relies on an employee or another person to conduct a business. In the case of a corporation, since a corporation is a fictitious legal person, it can only act through human agents. The principal is bound by the contract entered into by the agent, so long as the agent performs within the scope of the agency.

A third party may rely in good faith on the representation by a person who identifies himself as an agent for another. It is not always cost effective to check whether someone who is represented as having the authority to act for another actually has such authority. If it is subsequently found that the alleged agent was acting without necessary authority, the agent will generally be held liable.

Brief statement of legal principles

There are three broad classes of agent

1. Universal agents hold broad authority to act on behalf of the principal, e.g. they may hold a [power of attorney](http://en.wikipedia.org/wiki/Power_of_attorney) (also known as a [mandate](http://en.wiktionary.org/wiki/mandate) in [civil law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)) [jurisdictions](http://en.wikipedia.org/wiki/Jurisdiction)) or have a professional relationship, say, as [lawyer](http://en.wikipedia.org/wiki/Lawyer) and client.
2. General agents hold a more limited authority to conduct a series of transactions over a continuous period of time; and
3. Special agents are authorized to conduct either only a single transaction or a specified series of transactions over a limited period of time.

Agency relationships

Agency relationships are common in many [professional](http://en.wikipedia.org/wiki/Profession) areas.

* [employment](http://en.wikipedia.org/wiki/Employment).
* [real estate](http://en.wikipedia.org/wiki/Real_estate) transactions ([real estate brokerage](http://en.wikipedia.org/wiki/Real_estate_broker), [mortgage brokerage](http://en.wikipedia.org/wiki/Mortgage_broker)). In real estate brokerage, the buyers or sellers are the principals themselves and the broker or his salesperson who represents each principal is his agent.
* [financial advice](http://en.wikipedia.org/wiki/Financial_advisor) (insurance agency, [stock brokerage](http://en.wikipedia.org/wiki/Stock_broker), [accountancy](http://en.wikipedia.org/wiki/Accountancy))
* contract negotiation and [promotion](http://en.wikipedia.org/wiki/Promotion_(marketing)) ([business management](http://en.wikipedia.org/wiki/Business_management)) such as for [publishing](http://en.wikipedia.org/wiki/Publishing), [fashion model](http://en.wikipedia.org/wiki/Fashion_model), [music](http://en.wikipedia.org/wiki/Music), [movies](http://en.wikipedia.org/wiki/Movies), [theatre](http://en.wikipedia.org/wiki/Theatre), [show business](http://en.wikipedia.org/wiki/Show_business), and [sport](http://en.wikipedia.org/wiki/Sport).

An **agent** in [commercial law](http://en.wikipedia.org/wiki/Commercial_law) (also referred to as a **manager**) is a person who is authorised to act on behalf of another (called the [principal](http://en.wikipedia.org/wiki/Principal_(commercial_law)) or **client**) to create a legal relationship with a third party.

# VI Intellectual Property

Intellectual property

**Intellectual property** (**IP**) is a [controversial](http://en.wikipedia.org/wiki/Criticism_of_Intellectual_Property#The_term_.22intellectual_property.22) term referring to a number of distinct types of creations of the mind for which a set of rights are recognized under the corresponding fields of [law](http://en.wikipedia.org/wiki/Law).[[1]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-0) Under intellectual property law, owners are granted certain exclusive rights to a variety of [intangible assets](http://en.wikipedia.org/wiki/Intangible_asset), such as musical, literary, and artistic works; discoveries and inventions; and words, phrases, symbols, and designs. Common types of intellectual property rights include [copyrights](http://en.wikipedia.org/wiki/Copyright), [trademarks](http://en.wikipedia.org/wiki/Trademark), [patents](http://en.wikipedia.org/wiki/Patent), [industrial design rights](http://en.wikipedia.org/wiki/Industrial_design_right) and [trade secrets](http://en.wikipedia.org/wiki/Trade_secret) in some jurisdictions.

Although many of the legal principles governing intellectual property have evolved over centuries, it was not until the 19th century that the term *intellectual property* began to be used, and not until the late 20th century that it became commonplace in the majority of the world.[[2]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-Lemley_2005-1) The British [Statute of Anne](http://en.wikipedia.org/wiki/Statute_of_Anne) 1710 and the [Statute of Monopolies 1623](http://en.wikipedia.org/wiki/Statute_of_Monopolies_1623) are now seen as the origins of [copyright](http://en.wikipedia.org/wiki/Copyright) and [patent law](http://en.wikipedia.org/wiki/Patent_law) respectively.[[3]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-2)

## Objectives

Currently, particularly in the United States, the objective of intellectual property legislators and those who support its implementation is "absolute protection". "If some intellectual property is desirable because it encourages innovation, they reason, more is better. The thinking is that creators will not have sufficient incentive to invent unless they are legally entitled to capture the full social value of their inventions." [[12]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-11) This absolute protection or full value view treats intellectual property as another type of 'real' property, typically adopting its law and rhetoric.

### Financial incentive

These exclusive rights allow owners of intellectual property to benefit from the property they have created, providing a financial incentive for the creation of an investment in intellectual property, and, in case of patents, pay associated [research and development](http://en.wikipedia.org/wiki/Research_and_development) costs.[[13]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-MonoProf-12) Some commentators, such as [David Levine](http://en.wikipedia.org/wiki/David_K._Levine) and [Michele Boldrin](http://en.wikipedia.org/wiki/Michele_Boldrin), dispute this justification.[[14]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-R000000-13)

### Economic growth

The WIPO treaty and several related international agreements are premised on the notion that the protection of intellectual property rights are essential to maintaining economic growth. The *WIPO Intellectual Property Handbook* gives two reasons for intellectual property laws:

One is to give statutory expression to the moral and economic rights of creators in their creations and the rights of the public in access to those creations. The second is to promote, as a deliberate act of Government policy, creativity and the dissemination and application of its results and to encourage fair trading which would contribute to economic and social development.[[15]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-14)

The [Anti-Counterfeiting Trade Agreement](http://en.wikipedia.org/wiki/Anti-Counterfeiting_Trade_Agreement) (ACTA) states that "effective enforcement of intellectual property rights is critical to sustaining economic growth across all industries and globally".[[16]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-15)

A joint research project of the [WIPO](http://en.wikipedia.org/wiki/WIPO) and the [United Nations University](http://en.wikipedia.org/wiki/United_Nations_University) measuring the impact of IP systems on six Asian countries found "a positive correlation between the strengthening of the IP system and subsequent economic growth."[[19]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-WIPO:_Economic_Impact-18)

Economists have also shown that IP can be a disincentive to innovation when that innovation is drastic. IP makes excludable [non-rival](http://en.wikipedia.org/wiki/Rivalry_(economics)) intellectual products that were previously non-excludable. This creates [economic inefficiency](http://en.wikipedia.org/wiki/Economic_efficiency) as long as the monopoly is held. A disincentive to direct resources toward innovation can occur when monopoly profits are less than the overall [welfare](http://en.wikipedia.org/wiki/Welfare_economics) improvement to society. This situation can be seen as a market failure, and an issue of [appropriability](http://en.wiktionary.org/wiki/appropriability).[[20]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-19)

### Morality

According to Article 27 of the [Universal Declaration of Human Rights](http://en.wikipedia.org/wiki/Universal_Declaration_of_Human_Rights), "everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author".[[21]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-20) Although the relationship between intellectual property and [human rights](http://en.wikipedia.org/wiki/Human_rights) is a complex one,[[22]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-21) there are moral arguments for intellectual property.

The arguments that justify intellectual property fall into three major categories. Personality theorists believe intellectual property is an extension of an individual. Utilitarians believe that intellectual property stimulates social progress and pushes people to further innovation. Lokeans argue that intellectual property is justified based on deservedness and hard work.

Various moral justifications for private property can be used to argue in favour of the morality of intellectual property, such as:

1. *Natural Rights/Justice Argument*: this argument is based on Locke’s idea that a person has a natural right over the labour and/or products which is produced by his/her body. Appropriating these products is viewed as unjust. Although Locke had never explicitly stated that natural right applied to products of the mind, [[23]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-22) it is possible to apply his argument to intellectual property rights, in which it would be unjust for people to misuse another's ideas.[[24]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-23) Lokeans argument for intellectual property is based upon the idea that labourers have the right to control that which they create. They argue that we own our bodies which are the labourers; this right of ownership extends to what we create. Thus, intellectual property ensures this right when it comes to production.
2. *Utilitarian-Pragmatic Argument*: according to this rationale, a society that protects private property is more effective and prosperous than societies that do not. Innovation and invention in 19th century America has been said to be attributed to the development of the [patent](http://en.wikipedia.org/wiki/Patent) system.[[25]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-24) By providing innovators with "durable and tangible return on their investment of time, labour, and other resources", intellectual property rights seek to maximize social utility.[[26]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-25) The presumption is that they promote public welfare by encouraging the "creation, production, and distribution of intellectual works".[[27]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-26) Utilitarians argue that without intellectual property there would be a lack of incentive to produce new idea. Systems of protection such as Intellectual property optimize social utility.
3. *"Personality" Argument*: this argument is based on a quote from Hegel: "Every man has the right to turn his will upon a thing or make the thing an object of his will, that is to say, to set aside the mere thing and recreate it as his own".[[28]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-27) European intellectual property law is shaped by this notion that ideas are an "extension of oneself and of one’s personality".[[29]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-28) Personality theorists argue that by being a creator of something one is inherently at risk and vulnerable for having their ideas and designs stolen and/or altered. Intellectual property protects these moral claims that have to do with personality.

Writer Ayn Rand has argued that the protection of intellectual property is essentially a moral issue. The belief is that the human mind itself is the source of wealth and survival and that all property at its base is intellectual property. To violate intellectual property is therefore no different morally than violating other property rights which compromises the very processes of survival and therefore constitutes an immoral act.[[30]](http://en.wikipedia.org/wiki/Intellectual_property#cite_note-29)

World Intellectual Property Organization

[](http://en.wikipedia.org/wiki/File:WIPO_logo_2010.gif)  
WIPO logo

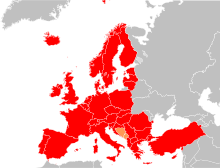
The **World Intellectual Property Organization** (**WIPO**) is one of the 17 specialized agencies of the [United Nations](http://en.wikipedia.org/wiki/United_Nations). WIPO was created in 1967 "to encourage creative activity, to promote the protection of intellectual property throughout the world."[[1]](http://en.wikipedia.org/wiki/World_Intellectual_Property_Organization#cite_note-0)

WIPO currently has 185 member states,[[2]](http://en.wikipedia.org/wiki/World_Intellectual_Property_Organization#cite_note-1) administers 24 international [treaties](http://en.wikipedia.org/wiki/Treaty),[[3]](http://en.wikipedia.org/wiki/World_Intellectual_Property_Organization#cite_note-2) and is headquartered in [Geneva](http://en.wikipedia.org/wiki/Geneva), [Switzerland](http://en.wikipedia.org/wiki/Switzerland). The current Director-General of WIPO is [Francis Gurry](http://en.wikipedia.org/wiki/Francis_Gurry), who took office on October 1, 2008.[[4]](http://en.wikipedia.org/wiki/World_Intellectual_Property_Organization#cite_note-3) 184 of the [UN Members](http://en.wikipedia.org/wiki/List_of_United_Nations_member_states) as well as the [Holy See](http://en.wikipedia.org/wiki/Holy_See) are Members of WIPO. Non-members are the states of [Cook Islands](http://en.wikipedia.org/wiki/Cook_Islands), [Kiribati](http://en.wikipedia.org/wiki/Kiribati), [Marshall Islands](http://en.wikipedia.org/wiki/Marshall_Islands), [Federated States of Micronesia](http://en.wikipedia.org/wiki/Federated_States_of_Micronesia), [Nauru](http://en.wikipedia.org/wiki/Nauru), [Niue](http://en.wikipedia.org/wiki/Niue), [Palau](http://en.wikipedia.org/wiki/Palau), [Solomon Islands](http://en.wikipedia.org/wiki/Solomon_Islands), [Timor-Leste](http://en.wikipedia.org/wiki/East_Timor), [Tuvalu](http://en.wikipedia.org/wiki/Tuvalu), and the [states with limited recognition](http://en.wikipedia.org/wiki/List_of_states_with_limited_recognition). [Palestine](http://en.wikipedia.org/wiki/United_Nations_General_Assembly_observers#Palestine) has observer status.[[5]](http://en.wikipedia.org/wiki/World_Intellectual_Property_Organization#cite_note-4)

Information network

WIPO has established WIPOnet, a global information network. The project seeks to link over 300 intellectual property offices (IP offices) in all WIPO Member States. In addition to providing a means of secure communication among all connected parties, WIPOnet is the foundation for WIPO's intellectual property services.[[12]](http://en.wikipedia.org/wiki/World_Intellectual_Property_Organization#cite_note-11)

European Patent Convention

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European Patent Convention Contracting States in red, extension agreement states in orange as from 1 October 2010

The **Convention on the Grant of European Patents** of 5 October 1973, commonly known as the **European Patent Convention** (EPC), is a multilateral [treaty](http://en.wikipedia.org/wiki/Treaty) instituting the [European Patent Organisation](http://en.wikipedia.org/wiki/European_Patent_Organisation) and providing an autonomous [legal](http://en.wikipedia.org/wiki/Law) system according to which **European patents** are granted. The term *European patent* is used to refer to [patents](http://en.wikipedia.org/wiki/Patent) granted under the European Patent Convention. However, after grant a European patent is not a unitary right, but a group of essentially independent nationally-enforceable, nationally-revocable patents,[[1]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-SingerArt2andScourfield-0) subject to central revocation or narrowing as a group pursuant to two types of unified, post-grant procedures: a time-limited [opposition procedure](http://en.wikipedia.org/wiki/Opposition_procedure_before_the_European_Patent_Office), which can be initiated by any person except the patent proprietor, and [limitation and revocation procedures](http://en.wikipedia.org/wiki/Limitation_and_revocation_procedures), which can be initiated by the patent proprietor only.

The EPC provides a legal framework for the granting of European patents,[[2]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-1) via a single, harmonized procedure before the [European Patent Office](http://en.wikipedia.org/wiki/European_Patent_Office). A single [patent application](http://en.wikipedia.org/wiki/Patent_application), in one language,[[3]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-2) may be filed at the European Patent Office at [Munich](http://en.wikipedia.org/wiki/Munich),[[4]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-Art75-1-a-3) at its branches at [The Hague](http://en.wikipedia.org/wiki/The_Hague)[[4]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-Art75-1-a-3) or [Berlin](http://en.wikipedia.org/wiki/Berlin)[[5]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-4) or at a national patent office of a Contracting State, if the national law of the State so permits.[[6]](http://en.wikipedia.org/wiki/European_Patent_Convention#cite_note-Art75-1-b-5)

Background and rationale

Before 1978, two important problems when seeking to obtain patent protection in Europe in a number of countries were first the need to file a separate patent application in each country, with a subsequent distinct grant procedure in each country, and secondly the need to translate the text of the application into a number of different languages. Different languages are indeed utilised across the European countries and there is substantial expense in preparing translations into each of those languages. While the European Patent Convention does not totally overcome the need for translations (since a translation may be required after grant to validate a patent in a given EPC Contracting State), it does centralise the prosecution in one language and defers the cost of translations until the time of grant.

Intellectual Property High Court

The **Intellectual Property High Court** (知的財産高等裁判所, *Chiteki-zaisan kōtō-saiban-sho*), sometimes abbreviated IPHC, is a special branch of [Tokyo High Court](http://en.wikipedia.org/wiki/Tokyo_High_Court) in the [judicial system of Japan](http://en.wikipedia.org/wiki/Judicial_system_of_Japan). It is based in [Kasumigaseki](http://en.wikipedia.org/wiki/Kasumigaseki), a district in [Chiyoda](http://en.wikipedia.org/wiki/Chiyoda,_Tokyo) [Ward](http://en.wikipedia.org/wiki/Wards_of_Japan) in [Tokyo](http://en.wikipedia.org/wiki/Tokyo), [Japan](http://en.wikipedia.org/wiki/Japan).

The Intellectual Property (IP) High Court was established on 1 April 2005, [[4]](http://en.wikipedia.org/wiki/Intellectual_Property_High_Court#cite_note-history-3) in order to accelerate and reduce the costs of [patent](http://en.wikipedia.org/wiki/Patent) litigation in Japan.[[5]](http://en.wikipedia.org/wiki/Intellectual_Property_High_Court#cite_note-4) The IP High Court hears appeals from district courts in Japan on patent actions and suits against appeal/trial decisions made by the [Japan Patent Office](http://en.wikipedia.org/wiki/Japan_Patent_Office) (JPO).[[4]](http://en.wikipedia.org/wiki/Intellectual_Property_High_Court#cite_note-history-3)

Agreement on Trade-Related Aspects of Intellectual Property Rights

The **Agreement on Trade Related Aspects of Intellectual Property Rights** (**TRIPS**) is an [international agreement](http://en.wikipedia.org/wiki/International_agreement) administered by the [World Trade Organization](http://en.wikipedia.org/wiki/World_Trade_Organization) (WTO) that sets down minimum standards for many forms of [intellectual property](http://en.wikipedia.org/wiki/Intellectual_property) (IP) regulation as applied to nationals of other WTO Members.[[2]](http://en.wikipedia.org/wiki/Agreement_on_Trade-Related_Aspects_of_Intellectual_Property_Rights#cite_note-1) It was negotiated at the end of the [Uruguay Round](http://en.wikipedia.org/wiki/Uruguay_Round) of the [General Agreement on Tariffs and Trade](http://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT) in 1994.

The TRIPS agreement introduced intellectual property law into the international trading system for the first time and remains the most comprehensive international agreement on intellectual property to date. In 2001, developing countries, concerned that developed countries were insisting on an overly narrow reading of TRIPS, initiated a round of talks that resulted in the [Doha Declaration](http://en.wikipedia.org/wiki/Doha_Declaration). The Doha declaration is a WTO statement that clarifies the scope of TRIPS, stating for example that TRIPS can and should be interpreted in light of the goal "to promote access to medicines for all."

Specifically, TRIPS contains requirements that nations' laws must meet for [copyright](http://en.wikipedia.org/wiki/Copyright) rights, including the rights of performers, producers of sound recordings and broadcasting organizations; [geographical indications](http://en.wikipedia.org/wiki/Geographical_indication), including appellations of origin; [industrial designs](http://en.wikipedia.org/wiki/Industrial_design_law); [integrated circuit layout-designs](http://en.wikipedia.org/wiki/Mask_work); [patents](http://en.wikipedia.org/wiki/Patent); monopolies for the developers of [new plant varieties](http://en.wikipedia.org/wiki/Plant_breeders%27_rights); [trademarks](http://en.wikipedia.org/wiki/Trademark); [trade dress](http://en.wikipedia.org/wiki/Trade_dress); and undisclosed or [confidential information](http://en.wikipedia.org/wiki/Confidential_information). TRIPS also specifies [enforcement](http://en.wikipedia.org/wiki/Enforcement) procedures, remedies, and [dispute resolution](http://en.wikipedia.org/wiki/Dispute_resolution) procedures. Protection and enforcement of all intellectual property rights shall meet the objectives to contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

# VII Employment Law

Labour law

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Labour law concerns the [inequality of bargaining power](http://en.wikipedia.org/wiki/Inequality_of_bargaining_power) between employers and workers.

**Labour law** (also called **labor law** or **employment law**) is the body of [laws](http://en.wikipedia.org/wiki/Law), administrative rulings, and precedents which address the legal rights of, and restrictions on, [working people](http://en.wikipedia.org/wiki/Working_people) and their organizations. As such, it mediates many aspects of the relationship between [trade unions](http://en.wikipedia.org/wiki/Trade_unions), employers and employees. In Canada, employment laws related to unionized workplaces are differentiated from those relating to particular individuals. In most countries however, no such distinction is made. However, there are two broad categories of labour law. First, **collective labour law** relates to the tripartite relationship between employee, employer and union. Second, **individual labour law** concerns employees' rights at work and through the [contract](http://en.wikipedia.org/wiki/Contract) for work. The [labour movement](http://en.wikipedia.org/wiki/Labour_movement) has been instrumental in the enacting of laws protecting [labour rights](http://en.wikipedia.org/wiki/Labour_rights) in the 19th and 20th centuries. Labour rights have been integral to the social and economic development since the [Industrial Revolution](http://en.wikipedia.org/wiki/Industrial_Revolution). **Employment standards** are social norms (in some cases also technical [standards](http://en.wikipedia.org/wiki/Standardization)) for the minimum socially acceptable conditions under which employees or contractors will work. Government agencies (such as the former U.S. [Employment Standards Administration](http://en.wikipedia.org/wiki/Employment_Standards_Administration)) enforce employment standards codified by labour law (legislative, regulatory, or judicial).

International labour law

One of the crucial concerns of workers and those that believe that labour rights are important, is that in a [globalizing](http://en.wikipedia.org/wiki/Globalization) economy, common social standards ought to support economic development in common markets. However, there is nothing in the way of international enforcement of [labour rights](http://en.wikipedia.org/wiki/Labour_rights), with the notable exception of labour law within the European Union. At the [Doha round](http://en.wikipedia.org/wiki/Doha_round) of trade talks through the [World Trade Organization](http://en.wikipedia.org/wiki/World_Trade_Organization) one of the items for discussion was the inclusion of some kind of minimum standard of worker protection. The chief question is whether, with the breaking down of trade barriers in the international economy, while this can benefit consumers it can also make the ability of multinational companies to bargain down wage costs even greater, in wealthier Western countries and developing nations alike. The ability of corporations to shift their [supply chains](http://en.wikipedia.org/wiki/Supply_chain) from one country to another with relative ease could be the starting gun for a "regulatory race to the bottom", whereby nation states are forced into a merciless downward spiral, not only slashing [tax](http://en.wikipedia.org/wiki/Tax) rates and [public services](http://en.wikipedia.org/wiki/Public_services) with it but also laws that in the short term cost employers money. Countries are forced to follow suit, on this view, because should they not [foreign investment](http://en.wikipedia.org/wiki/Foreign_investment) will dry up, move places with lower "burdens" and leave more people jobless and poor. This argument is by no means uncontested. The opposing view suggests that free [competition](http://en.wikipedia.org/wiki/Competition) for [capital](http://en.wikipedia.org/wiki/Capital_(economics)) investment between different countries increases the dynamic efficiency of the market place. Faced with the discipline that markets enforce, countries are incentivized to invest in education, training, and skills in their workforce to obtain a [comparative advantage](http://en.wikipedia.org/wiki/Comparative_advantage). Government initiative is spurred, because rational long term investment will be perceived as the better choice to increasing regulation. This theory concludes that an emphasis on deregulation is more beneficial than not. That said, neither the International Labour Organization (see below), nor the European Union takes this view.

International Labour Organization

[](http://en.wikipedia.org/wiki/File:Flag_of_ILO.svg)

The **International Labour Organization** (**ILO**) is an agency of the [United Nations](http://en.wikipedia.org/wiki/United_Nations) that deals with [labour](http://en.wikipedia.org/wiki/Labour_(economics)) issues pertaining to [international labour standards](http://en.wikipedia.org/wiki/International_labor_standards) and [decent work](http://en.wikipedia.org/wiki/Decent_work) for all.[[1]](http://en.wikipedia.org/wiki/International_Labour_Organization#cite_note-0) Its headquarters are in [Geneva](http://en.wikipedia.org/wiki/Geneva), [Switzerland](http://en.wikipedia.org/wiki/Switzerland). Its secretariat, the people who are employed by it throughout the world, is known as the International Labour Office. The organization received the [Nobel Peace Prize](http://en.wikipedia.org/wiki/Nobel_Peace_Prize) in 1969.[[2]](http://en.wikipedia.org/wiki/International_Labour_Organization#cite_note-1) It has no power to impose any sanctions on governments.[[3]](http://en.wikipedia.org/wiki/International_Labour_Organization#cite_note-2)

## Conventions

Through July 2011, the ILO has adopted 189 conventions.

### Adoption

Adoption of a convention by the International Labour Conference allows governments to ratify it, and the convention then becomes a treaty in international law when a specified number of governments have done so. But all adopted ILO conventions are considered international labour standards regardless of how many governments have ratified them.

### Ratification

The coming into force of a convention results in a legal obligation to apply its provisions by the nations that have ratified it. Ratification of a convention is voluntary. Conventions that have not been ratified by member states have the same legal force as do recommendations. Governments are required to submit reports detailing their compliance with the obligations of the conventions they have ratified. Every year the International Labour Conference's Committee on the Application of Standards examines a number of alleged breaches of international labour standards.

### Obligation to follow

In 1998, the 86th International Labour Conference adopted the *Declaration on Fundamental Principles and Rights at Work*. This declaration identified four "principles" as "core" or "fundamental", asserting that all ILO member States on the basis of existing obligations as members in the Organization have an obligation to work towards fully respecting the principles embodied in the relevant (ratifiable) ILO Conventions. The fundamental rights concern, freedom of association and collective bargaining, discrimination, forced labour, and child labour. The ILO Conventions which embody the fundamental principles have now been ratified by most member states.[[9]](http://en.wikipedia.org/wiki/International_Labour_Organization#cite_note-8)

## Recommendations

Recommendations do not have the binding force of conventions and are not subject to ratification. Recommendations may be adopted at the same time as conventions to supplement the latter with additional or more detailed provisions. In other cases recommendations may be adopted separately and may address issues not covered by, or be unrelated to, any particular convention.

Labour Contract Law of the People's Republic of China

The **Labour Contract Law of the People's Republic of China** (中华人民共和国劳动合同法) is the primary source of [labour law](http://en.wikipedia.org/wiki/Labour_law) in [China](http://en.wikipedia.org/wiki/China) and went into effect on January 1, 2008, following a series of staff-[sacking](http://en.wikipedia.org/wiki/Sacking) [scandals](http://en.wikipedia.org/wiki/Scandal) in many companies. The [Ministry of Human Resources and Social Security of the People's Republic of China](http://en.wikipedia.org/wiki/Ministry_of_Human_Resources_and_Social_Security_of_the_People%27s_Republic_of_China) is the responsible government department for administrating this law.

History

According to statistics from the [All-China Federation of Trade Unions](http://en.wikipedia.org/wiki/All-China_Federation_of_Trade_Unions) in 2008, 40 percent of [private-sector](http://en.wikipedia.org/wiki/Private-sector) employees lack labour contracts and there are many cases of wage default and [forced labor](http://en.wikipedia.org/wiki/Forced_labor). The new law is to strengthen China's overall economy and regulation.

The law prompts companies to improve their management, capital-labour relations and [productivity](http://en.wikipedia.org/wiki/Productivity). A sound market economy system in return would benefit businesses—both domestic and foreign companies.

Compared to the old contract law issued in 1994, the new law is supposed to provide greater [job security](http://en.wikipedia.org/wiki/Job_security).

Ever since the law was approved by China's [top legislature](http://en.wikipedia.org/wiki/National_People%27s_Congress) in June 2007, it had aroused heated discussion and concern among domestic and foreign companies.

China appealed to foreign investors with its cheap labour, its preferential investment policies and its immense market. Employers feared the new law would have meant bigger [severance payments](http://en.wikipedia.org/wiki/Severance_package) and higher operational costs.

In the short term, it has been predicted that foreign companies investing in supermarket chains, restaurants, building industries and other low-end manufacturing, which abuse cheap labours and avoid paying [social security](http://en.wikipedia.org/wiki/Social_security) would suffer some losses. But in the long run, the new labour contract law would not negatively impact China's [competitiveness](http://en.wikipedia.org/wiki/Competitiveness) and appeal as a destination for foreign investment.

Small and medium enterprises in particular have already particularly felt the effects of the law. For example, some Korean companies have already decided to move their business from China to Vietnam or other developing countries where labour is much cheaper. About 98 percent of Korean enterprises in China are independent small and medium firms.

Other companies reacted to the law by proactively firing employees who would have come under the new guidelines. In October, US-based retail giant [Wal-Mart](http://en.wikipedia.org/wiki/Wal-Mart) fired about 100 employees at a sourcing center in China. The company said the layoff was part of its global restructuring. LG and Olympus have respectively announced plans to lay off employees. [Carrefour](http://en.wikipedia.org/wiki/Carrefour) China has asked over 40,000 of its Chinese employees to re-sign a two-year labour contract before December 28, 2007 regardless of an employees' service length or the expiration of their current labour contract.

Indian labour law

**Indian labour law** refers to laws regulating employment in [India](http://en.wikipedia.org/wiki/India). There are over fifty national laws and many more state-level laws.

Traditionally Indian governments at federal and state level have sought to ensure a high degree of protection for workers. So for instance, a permanent worker can be terminated only for proven misconduct or for habitual absence.[[1]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-sharma-0) In [Uttam Nakate](http://en.wikipedia.org/wiki/Uttam_Nakate) case, the Bombay High Court held that dismissing an employee for repeated sleeping on the factory floor was illegal - a decision which was overturned by the Supreme Court of India. Moreover, it took two decades to complete the legal process. In 2008, the [World Bank](http://en.wikipedia.org/wiki/World_Bank) has criticised the complexity, lack of modernisation and flexibility in Indian regulations.[[2]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-wboverview-1)[[3]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-2) India can boast of a quarter of the world's workforce by 2025, provided the country harnesses the potential of its young and productive population. However, the [demographic dividend](http://en.wikipedia.org/wiki/Demographic_dividend) would become a disaster if India does not radically overhaul the labour ecosystem to enhance the productivity of the growing workforce. If reforms are not initiated, it is expected that much of the country's demographic dividend would occur in states with backward labour market ecosystems. It also ranked that states on the basis of improvement in their labour ecosystems in terms of state efforts in various areas like education and training, infrastructure, governance and the legal/regulatory structure.[[4]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-3)

Collective labour law

* The [Industrial Disputes Act](http://en.wikipedia.org/wiki/Industrial_Disputes_Act) (1947) requires companies employing more than 100 workers to seek government approval before they can fire employees or close down.[[5]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-gupta-4) In practice, permissions for firing employees are granted.[[5]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-gupta-4)
* Trade Unions Act 1926
* Provisions of the Factories Act, 1948

Individual labour law

*All India Organisation of Employers* points out that there are more than 55 central labour laws and over 100 state labour laws.[[1]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-sharma-0)

* The Contract Labour Act (1970) aims at regulating employment of contract labour so as to place it at par with labour employed directly.[[5]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-gupta-4) Women are not permitted to work night shifts.[[5]](http://en.wikipedia.org/wiki/Indian_labour_law#cite_note-gupta-4)
* Minimum Wages Act 1948
* Weekly Holidays Act 1942
* Beedi and Cigar Workers Act 1966
* The Payment of Wages Act, 1936
* The Workmen’s Compensation Act, 1923
* The Factories Act, 1948

Japanese employment law

**Japanese labour law** is the system of [labour law](http://en.wikipedia.org/wiki/Labour_law) operating in [Japan](http://en.wikipedia.org/wiki/Japan).

Employment Agreements

Under the Civil Code, a contract in which one person performs services for another with compensation may be construed as any one of the following:

* an employment agreement (雇用契約 *koyō keiyaku*) where the object is the completion of labor under the employing party's direction.
* an independent contractor agreement (請負契約 *ukeoi keiyaku*) where the object is the completion of a specific task.
* a mandate agreement (委任契約 *inin keiyaku*) where, similar to [power of attorney](http://en.wikipedia.org/wiki/Power_of_attorney) in common law countries, one party performs designated tasks on the other party's behalf. These tasks are usually legal acts but may be non-legal acts, in which case, the agreement is referred to as a quasi-mandate (準委任 *jun-inin*).

Employment agreements are regulated by the Civil Code and by the [Labor Standards Act](http://en.wikipedia.org/wiki/Labor_Standards_Act_of_1947) (労働基準法 *Rōdō-kijun-hō*). (The JETRO reference below covers this subject.) Some general guidelines follow—some items apply only to companies with ten or more employees.

## Conditions of employment

Conditions of employment must be clearly set out in the employment agreement or in supplementary rules which are provided to the employee.

### Term and termination

A fixed-term employment contract is generally limited to one year (there are some exceptions). For tenured staff, the term is not specified (but of course retirement age is usually stated).

An employee is permitted to resign at any time (usually two weeks notice is required), but an employer that tries to fire an employee without rational, reasonable, and socially-acceptable cause may lose an abusive-dismissal court case.

(Contract non-renewals may be a different matter; but if the contract is a full-year contract, and has been renewed at least once, then compensation—typically one month's pay for each year worked—is often negotiated).

The [Labor Standards Act](http://en.wikipedia.org/wiki/Labor_Standards_Act_of_1947) provides that if an employee is fired, notice must be provided at least thirty days in advance, or thirty days' pay must be provided in lieu of notice. Firing is specifically prohibited during:

* Maternity leave of a female employee, and for 30 days afterward.
* Hospitalization of an employee following job-related illness or injury, and for 30 days afterward.

(An employee who plans to contest dismissal should say so, demand that the reason be provided in writing, and should not accept the thirty days' pay in lieu of notice—as this may be construed as accepting dismissal.)

### Pay

Japan has [minimum wage](http://en.wikipedia.org/wiki/Minimum_wage) laws: the actual amount is based upon the local [cost of living](http://en.wikipedia.org/wiki/Cost_of_living) and therefore varies from region to region (see links below).

Pay must generally be provided in full, in cash, and paid directly to the employee on or by a specified day of the month (as per the contract).

Cash payments are usually made by [electronic funds transfer](http://en.wikipedia.org/wiki/Electronic_funds_transfer). The maximum pay period is one month, which is the standard pay period throughout Japan, although bonuses and other supplemental payments such as commuter allowance may be paid at longer intervals.

### Working hours

Maximum full-time working hours in Japan are eight hours per day and 40 hours per week.

If an employee works six to eight hours in a day, they are entitled to a 45-minute break; if an employee works eight hours in a day, they are entitled to a one-hour break. An employee is entitled to one holiday per week unless they otherwise receive four or more holidays within every period of four weeks. If an employee works six to eight hours in a day, they are entitled to a 45-minute break; if an employee works eight hours in a day, they are entitled to a one-hour break Overtime pay must be provided for any work over eight hours per day, over 40 hours per week or on holidays. Regulations provide that the overtime premium must be at least 25% for additional work on a workday, 35% for holiday work and an additional 25% for work late at night (usually defined as 10 PM to 5 AM).

Despite the fact overtime pay is required by law, Japanese companies have been known to take employees to court over employees' requests for overtime or other legitimate compensation.[[1]](http://en.wikipedia.org/wiki/Japanese_employment_law#cite_note-0)

### Leave

The [Labor Standards Act](http://en.wikipedia.org/wiki/Labor_Standards_Act_of_1947) prescribes minimum periods of paid annual leave based on an employee's seniority. 10 days of annual leave must be allowed following the employee's first 6 months of service. The minimum amount of annual leave increases each year thereafter following a fixed schedule (as per the contract).

Several forms of unpaid leave are also provided by law, including [maternity leave](http://en.wikipedia.org/wiki/Maternity_leave), child care leave, family care leave and nursing leave.

## Prohibiting Discrimination

Article 4 of the [Labor Standards Act](http://en.wikipedia.org/wiki/Labor_Standards_Act_of_1947) prohibits discrimination in pay based on [gender](http://en.wikipedia.org/wiki/Gender): "An employer shall not engage in discriminatory treatment of a woman as compared with a man with respect to wages by reason of the worker being a woman."

Subsequent legislation has also banned forms of disparate treatment which were previously used to skirt this stipulation. For instance, women must be afforded the same hiring, job training, promotion opportunities and retirement plans as men. Despite the law, it is reported that the disparity in pay and in promotion between men and women is one of the highest of the so-called advanced countries.

Article 3 of the [Labor Standards Act](http://en.wikipedia.org/wiki/Labor_Standards_Act_of_1947) prohibits ethnic, national and religious [discrimination](http://en.wikipedia.org/wiki/Discrimination) by employers in regards to work conditions: "An employer shall not engage in discriminatory treatment with respect to wages, working hours or other working conditions by reason of the nationality, creed or social status of any worker..."

United States labor law

[](http://en.wikipedia.org/wiki/File:Wga_rally_-_ave_stars_-_crossing_street.JPG)

[magnify-clip](http://en.wikipedia.org/wiki/File:Wga_rally_-_ave_stars_-_crossing_street.JPG)

Members of the [Writers' Guild of America on strike](http://en.wikipedia.org/wiki/2007%E2%80%932008_Writers_Guild_of_America_strike) against deteriorating terms and conditions in their employment agreements in 2007

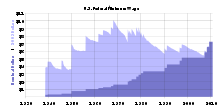
**United States labor law** is a heterogeneous collection of state and federal [laws](http://en.wikipedia.org/wiki/Labor_law). [Federal law](http://en.wikipedia.org/wiki/Federal_law) not only sets the standards that govern workers' rights to organize in the [private sector](http://en.wikipedia.org/wiki/Private_sector), but also overrides most [state](http://en.wikipedia.org/wiki/State_law) and local laws that attempt to regulate this area. Federal law also provides more limited rights for employees of the [federal government](http://en.wikipedia.org/wiki/Federal_government_of_the_United_States). These federal laws do not apply to employees of [state](http://en.wikipedia.org/wiki/State_government) and [local governments](http://en.wikipedia.org/wiki/Local_government), agricultural workers or domestic employees; any [statutory protections](http://en.wikipedia.org/wiki/Statute) those workers have derived from state law.

The pattern is even more mixed in the area of [wages](http://en.wikipedia.org/wiki/Wage) and [working conditions](http://en.wikipedia.org/wiki/Occupational_safety_and_health). Federal law establishes [minimum wages](http://en.wikipedia.org/wiki/Minimum_wage) and [overtime](http://en.wikipedia.org/wiki/Overtime) rights for most workers in the private and [public sectors](http://en.wikipedia.org/wiki/Public_sector); state and local laws may provide more expansive rights. Similarly, federal law provides minimum workplace safety standards, but allows the states to take over those responsibilities and to provide more stringent standards.

Finally, both federal and state laws protect workers from [employment discrimination](http://en.wikipedia.org/wiki/Employment_discrimination). In most areas these two bodies of law overlap; as an example, federal law permits states to enact their own statutes barring discrimination on the basis of [race](http://en.wikipedia.org/wiki/Race_(classification_of_human_beings)), [gender](http://en.wikipedia.org/wiki/Gender), [religion](http://en.wikipedia.org/wiki/Religion), [national origin](http://en.wikipedia.org/wiki/Nationality) and [age](http://en.wikipedia.org/wiki/Ageing), so long as the state law does not provide less protections than federal law would. Federal law, on the other hand, pre-empts most state statutes that would bar employers from discriminating against employees to prevent them from obtaining [pensions](http://en.wikipedia.org/wiki/Pension) or other benefits or retaliating against them for asserting those rights.

The United States Congress has not ratified the [International Labour Organization](http://en.wikipedia.org/wiki/International_Labour_Organization) [Convention](http://en.wikipedia.org/wiki/Treaty) on the [Freedom of Association and Protection of the Right to Organise Convention, 1948](http://en.wikipedia.org/wiki/Freedom_of_Association_and_Protection_of_the_Right_to_Organise_Convention,_1948) or the [Right to Organise and Collective Bargaining Convention, 1949](http://en.wikipedia.org/wiki/Right_to_Organise_and_Collective_Bargaining_Convention,_1949).

Regulation of wages, benefits and working conditions

[](http://en.wikipedia.org/wiki/File:History_of_US_federal_minimum_wage_increases.svg)

[magnify-clip](http://en.wikipedia.org/wiki/File:History_of_US_federal_minimum_wage_increases.svg)

A graph of the changes in the federal minimum wage rate. Light blue is the [real wage](http://en.wikipedia.org/wiki/Real_wage) and dark blue the nominal wage

The [Fair Labor Standards Act](http://en.wikipedia.org/wiki/Fair_Labor_Standards_Act)[[5]](http://en.wikipedia.org/wiki/United_States_labor_law#cite_note-4) of 1938 (FLSA) establishes minimum wage and overtime rights for most private sector workers, with a number of exemptions and exceptions. Congress amended the Act in 1974 to cover governmental employees, leading to a series of [United States Supreme Court](http://en.wikipedia.org/wiki/United_States_Supreme_Court) decisions in which the Court first held that the law was unconstitutional, and then reversed itself to permit the FLSA to cover governmental employees.

The FLSA does not pre-empt state and local governments from providing greater protections under their own laws. A number of states have enacted higher minimum wages and extended their laws to cover workers who are excluded under the FLSA or to provide rights that federal law ignores. Local governments have also adopted a number of "living wage" laws that require those employers that contract with them to pay higher minimum wages and benefits to their employees. The federal government, along with many state governments, likewise requires employers to pay the prevailing wage, which typically reflects the standards established by unions' collective bargaining agreements in the area, to workers on public works projects.

The [Employee Retirement Income Security Act](http://en.wikipedia.org/wiki/Employee_Retirement_Income_Security_Act) [[6]](http://en.wikipedia.org/wiki/United_States_labor_law#cite_note-5) establishes standards for the funding and operation of pension and health care plans provided by employers to their employees. The ERISA pre-empts most state legislation that attempts to regulate how such plans are administered and, to a great extent, what types of health care coverage they provide. ERISA also pre-empts state law claims that an employer discriminated against employees in order to prevent them from obtaining the benefits they would have earned otherwise or to retaliate against them for asserting their rights.

The [Family and Medical Leave Act](http://en.wikipedia.org/wiki/Family_and_Medical_Leave_Act),[[7]](http://en.wikipedia.org/wiki/United_States_labor_law#cite_note-6) passed in 1993, requires employers to provide workers with twelve weeks of unpaid medical leave and continuing medical benefit coverage in order to attend to certain medical conditions of close relatives or themselves. Many states have comparable statutory provisions; some states have offered greater protections.

The [Occupational Safety and Health Act](http://en.wikipedia.org/wiki/Occupational_Safety_and_Health_Act),[[8]](http://en.wikipedia.org/wiki/United_States_labor_law#cite_note-7) signed into law in 1970 by President [Richard Nixon](http://en.wikipedia.org/wiki/Richard_Nixon), creates specific standards for workplace safety. The Act has spawned years of litigation by industry groups that have challenged the standards limiting the amount of permitted exposure to chemicals such as [benzene](http://en.wikipedia.org/wiki/Benzene). The Act also provides for protection for "whistleblowers" who complain to governmental authorities about unsafe conditions while allowing workers the right to refuse to work under unsafe conditions in certain circumstances. The Act allows states to take over the administration of OSHA in their jurisdictions, so long as they adopt state laws at least as protective of workers' rights as under federal law. More than half of the states have done so.

Charter of Fundamental Rights of the European Union

[](http://en.wikipedia.org/wiki/File:01CFREU-Preamble-crop.jpg)

The preamble of the Charter

The **Charter of Fundamental Rights of the European Union** enshrines certain political, social, and economic rights for [European Union](http://en.wikipedia.org/wiki/European_Union) (EU) [citizens](http://en.wikipedia.org/wiki/Citizenship_of_the_European_Union) and residents, into [EU law](http://en.wikipedia.org/wiki/Law_of_the_European_Union). It was drafted by the [European Convention](http://en.wikipedia.org/wiki/European_Convention_(1999-2000)) and solemnly proclaimed on 7 December 2000 by the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament), the [Council of Ministers](http://en.wikipedia.org/wiki/Council_of_the_European_Union) and the [European Commission](http://en.wikipedia.org/wiki/European_Commission). However its then legal status was uncertain and it did not have full legal effect [[1]](http://en.wikipedia.org/wiki/Charter_of_Fundamental_Rights_of_the_European_Union#cite_note-Craig_4th_ed_Chapter_11-0) until the entry into force of the [Treaty of Lisbon](http://en.wikipedia.org/wiki/Treaty_of_Lisbon) on 1 December 2009.

Under the Charter, the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU) must act and legislate consistently with the Charter and the [EU's courts](http://en.wikipedia.org/wiki/Court_of_Justice_of_the_European_Union) will strike down EU legislation which contravenes it. The Charter only applies to [EU member states](http://en.wikipedia.org/wiki/Member_States_of_the_European_Union) when they are implementing EU law and does not extend the competences of the EU beyond the competences given to it in [the treaties](http://en.wikipedia.org/wiki/Treaties_of_the_European_Union).

The text

The Charter contains some 54 articles divided into seven titles. The first six titles deal with substantive rights under the headings: dignity, freedoms, equality, solidarity, citizens' rights and justice, while the last title deals with the interpretation and application of the Charter. Much of Charter is based on the [European Convention on Human Rights](http://en.wikipedia.org/wiki/European_Convention_on_Human_Rights) (ECHR), [European Social Charter](http://en.wikipedia.org/wiki/European_Social_Charter), the case-law of the [European Court of Justice](http://en.wikipedia.org/wiki/European_Court_of_Justice) and pre-existing provisions of [European Union law](http://en.wikipedia.org/wiki/European_Union_law).

* The first title, dignity, guarantees the right to life and prohibits torture, slavery and the death penalty. Its provisions are mostly based on the ECHR, although Article 1 closely reflects Article 1 of the [German Basic Law](http://en.wikipedia.org/wiki/German_Basic_Law).
* The second title covers liberty, privacy, marriage, thought, expression, assembly, education, work, property and asylum.
* The third title covers equality, the rights of children and the elderly.
* The fourth title covers social and workers' rights including the right to fair working conditions, protection against unjustified dismissal, and access to health care.
* The fifth title covers the rights of the EU citizens such as the right to vote in election to the [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) and to move freely within the EU. It also includes several administrative rights such as a right to good administration, to access documents and to petition the European Parliament.
* The sixth title covers justice issues such as the right to an effective remedy, a fair trial, to the [presumption of innocence](http://en.wikipedia.org/wiki/Presumption_of_innocence), the [principle of legality](http://en.wikipedia.org/wiki/Principle_of_legality), non-retrospectivity and [double jeopardy](http://en.wikipedia.org/wiki/Double_jeopardy).
* The seventh title concerns the interpretation and application of the Charter. These issues are dealt with [above](http://en.wikipedia.org/wiki/Charter_of_Fundamental_Rights_of_the_European_Union#Legal_status).

# VIII Consumer Protection

Consumer protection

**Consumer protection** consists of laws and organizations designed to ensure the rights of consumers as well as fair trade competition and the free flow of truthful information in the marketplace. The laws are designed to prevent businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors and may provide additional protection for the weak and those unable to take care of themselves. Consumer protection laws are a form of government [regulation](http://en.wikipedia.org/wiki/Regulation) which aims to protect the rights of [consumers](http://en.wikipedia.org/wiki/Consumer). For example, a government may require businesses to disclose detailed information about products—particularly in areas where safety or public health is an issue, such as food. Consumer protection is linked to the idea of "consumer rights" (that consumers have various rights as consumers), and to the formation of [consumer organizations](http://en.wikipedia.org/wiki/Consumer_organization), which help consumers make better choices in the marketplace and get help with [consumer complaints](http://en.wikipedia.org/wiki/Consumer_complaint).

Other organizations that promote consumer protection include government organizations and self-regulating business organizations such as consumer protection agencies and organizations, the [Federal Trade Commission](http://en.wikipedia.org/wiki/Federal_Trade_Commission), [ombudsmen](http://en.wikipedia.org/wiki/Ombudsman), [Better Business Bureaus](http://en.wikipedia.org/wiki/Better_Business_Bureau), etc.

A consumer is defined as someone who acquires goods or services for direct use or ownership rather than for resale or use in production and manufacturing.[[1]](http://en.wikipedia.org/wiki/Consumer_protection#cite_note-0)

Consumer interests can also be protected by promoting competition in the markets which directly and indirectly serve consumers, consistent with economic efficiency, but this topic is treated in [competition law](http://en.wikipedia.org/wiki/Competition_law).

United Nations Guidelines for Consumer Protection

The **United Nations Guidelines for Consumer Protection** is a declaration of best practices in consumer protection law and policy. The Guidelines are not binding, but do provide a set of basic consumer protection objectives upon which governments have agreed, thereby serving as a policy framework for implementation at a national level.[[1]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-undesa-0) Whilst directed primarily at governments, some provisions of the Guidelines are also directed at businesses.[[2]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-1)

History

The earliest known statement of consumer rights at a political level was given on 16 March 1962, when President John F Kennedy of the United States delivered a speech to Congress in which he outlined [four consumer rights](http://en.wikipedia.org/wiki/Consumer_Bill_of_Rights): the right to safety, the right to be informed, the right to choose and the right to be heard.

In 1981, the [United Nations Economic and Social Council](http://en.wikipedia.org/wiki/United_Nations_Economic_and_Social_Council) "requested the Secretary-General to continue consultations on consumer protection with a view to elaborating a set of general guidelines for consumer protection, taking particularly into account the needs of the developing countries".[[3]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-2)

In 1983, draft guidelines for consumer protection were submitted to ECOSOC in response to its request. Following extensive discussions and negotiations, the Guidelines were adopted by consensus resolution of the [United Nations General Assembly](http://en.wikipedia.org/wiki/United_Nations_General_Assembly) on 9 April 1985. They have since been amended by the addition of a new section on sustainable consumption on 26 July 1999.[[1]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-undesa-0)

Structure

The Guidelines originally covered seven areas: physical safety, promotion and protection of consumers' economic interests, standards for the safety and quality of consumer goods and services, distribution facilities for essential consumer goods and services, measures enabling consumers to obtain redress, education and information programmes, and measures relating to specific areas (food, water, and pharmaceuticals). With their amendment in 1999, an eighth area, promotion of sustainable consumption, was added.

Reaction

The [United Nations Conference on Trade and Development](http://en.wikipedia.org/wiki/United_Nations_Conference_on_Trade_and_Development) (UNCTAD), which is the subsidiary body of the UN General Assembly that holds responsibility for consumer protection and competition policy, states that the Guidelines "take into account the interests and needs of consumers, particularly those in developing countries."[[4]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-3) A 1993 report on progress in implementation of the Guidelines by the UN Secretary-General noted that most governments who responded "reported that the guidelines had had a significant impact on their work" on consumer policy.[[5]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-4)

The reception of the Guidelines within the [consumer movement](http://en.wikipedia.org/wiki/Consumer_activism) has been positive. One consumer advocate has described them as having "made a major contribution to the advancement of the position of consumers around the world."[[6]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-brown-5) The eight sections of the Guidelines have also been restated as eight consumer rights by the [NGO](http://en.wikipedia.org/wiki/NGO) [Consumers International](http://en.wikipedia.org/wiki/Consumers_International), expanding upon those recognised by President Kennedy.[[7]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-6)

On the other hand, at the time of their negotiation the Guidelines were opposed by certain business interests and developed countries as paternalistic,[[6]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-brown-5) and they have since been criticised as vague, overblown and unnecessary.[[8]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-7)

Future

In 2011, Consumers International, which was involved in preparatory work for the original guidelines[[6]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-brown-5) and the sustainable consumption amendments,[[1]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-undesa-0) developed a suggested set of further amendments to the Guidelines covering the topic of [access to knowledge](http://en.wikipedia.org/wiki/Access_to_knowledge).[[9]](http://en.wikipedia.org/wiki/United_Nations_Guidelines_for_Consumer_Protection#cite_note-8)

Unfair Commercial Practices Directive

**Directive 2005/29/EC**, [[1]](http://en.wikipedia.org/wiki/Unfair_Commercial_Practices_Directive#cite_note-0) the **Unfair Commercial Practices Directive**, is a major reform of the law concerning [unfair business practices](http://en.wikipedia.org/wiki/Unfair_business_practices) in the [European Union](http://en.wikipedia.org/wiki/European_Union). Like any European Union Directive, it needs national rules to incorporate it in each national legal system (English, Scottish, French law etc.), although even without that it may have some effect in national law. Generally speaking, it will be difficult to predict exactly what the impact of the Directive is in a particular country without consulting the national implementing laws. In some states those laws may not yet exist.

About the directive

The idea behind the Directive was to combine a high level of consumer protection with freeing up international trade in the European Union. The theory is that differences in fair trading laws from country to country caused obstacles to trade (see Article 1 of the Directive and the recitals to it). In other words, the problem is not how strong consumer protection laws are in one country or another country, but rather the fact that the consumer protection laws are different from country to country. The Directive is supposed to reduce those differences, but keep a good level of consumer protection. That is supposed to be good for both business and consumers: good for businesses because they do not need to worry quite as much as before about different rules in different legal systems (though some difficulties are inevitable), and good for consumers because we have a decent level of consumer protection. Consumers can also expect the same kinds of consumer protection from country to country (again with some exceptions), which may make them feel safer buying things from abroad.

The Directive is designed to achieve what is called "maximum harmonisation" of business-to-consumer fair trading law. The idea of "maximum harmonisation" is that as well as requiring [member states](http://en.wikipedia.org/wiki/List_of_European_Union_member_states) of the European Union to apply the standards set out in European legislation, the European legislation means that the member states are not allowed to apply higher standards. In other words, the Directive tells European countries to give consumers the protection set out in the Directive, but nothing better than that. That maximum harmonisation is not yet in force.

# IX Company Law

Companies’ law

**Companies’ law** (or the law of **business associations**) is the field of [law](http://en.wikipedia.org/wiki/Law) concerning [companies](http://en.wikipedia.org/wiki/Company) and other business [organizations](http://en.wikipedia.org/wiki/Organization). This includes [corporations](http://en.wikipedia.org/wiki/Corporation), [partnerships](http://en.wikipedia.org/wiki/Partnership) and other associations which usually carry on some form of economic or charitable activity. The most prominent kind of company, usually referred to as a "corporation", is a "[juristic person](http://en.wikipedia.org/wiki/Juristic_person)", i.e. it has separate legal personality, and those who [invest money](http://en.wikipedia.org/wiki/Shareholder) into the business have [limited liability](http://en.wikipedia.org/wiki/Limited_liability) for any losses the company makes, governed by [corporate law](http://en.wikipedia.org/wiki/Corporate_law). The largest companies are usually publicly listed on [stock exchanges](http://en.wikipedia.org/wiki/Stock_exchange) around the world. Even single individuals, also known as [sole traders](http://en.wikipedia.org/wiki/Sole_trader) may incorporate themselves and limit their liability in order to carry on a business. All different forms of companies depend on the particular law of the particular country in which they reside.

The law of business organizations originally derived from the [common law](http://en.wikipedia.org/wiki/Common_law) of [England](http://en.wikipedia.org/wiki/England), but has evolved significantly in the 20th century. In common law countries today, the most commonly addressed forms are:

* [Corporation](http://en.wikipedia.org/wiki/Corporation)
* [Limited company](http://en.wikipedia.org/wiki/Limited_company)
* [Unlimited company](http://en.wikipedia.org/wiki/Unlimited_company)
* [Limited liability partnership](http://en.wikipedia.org/wiki/Limited_liability_partnership)
* [Limited partnership](http://en.wikipedia.org/wiki/Limited_partnership)
* [Not-for-profit corporation](http://en.wikipedia.org/wiki/Not-for-profit_corporation)
* [Partnership](http://en.wikipedia.org/wiki/Partnership)
* [Sole Proprietorship](http://en.wikipedia.org/wiki/Sole_Proprietorship)

The [proprietary limited company](http://en.wikipedia.org/wiki/Proprietary_limited_company) is a statutory business form in several countries, including [Australia](http://en.wikipedia.org/wiki/Australia).

Many countries have forms of business entity unique to that country, although there are equivalents elsewhere. Examples are the [Limited-liability company](http://en.wikipedia.org/wiki/Limited-liability_company) (LLC) and the [limited liability limited partnership](http://en.wikipedia.org/wiki/Limited_liability_limited_partnership) (LLLP) in the United States.

Other types of business organizations, such as [cooperatives](http://en.wikipedia.org/wiki/Cooperative), [credit unions](http://en.wikipedia.org/wiki/Credit_unions) and publicly owned enterprises, can be established with purposes that parallel, supersede, or even replace the [profit maximization](http://en.wikipedia.org/wiki/Profit_maximization) mandate of business corporations.

For a country-by-country listing of officially recognized forms of business organization, see [Types of business entity](http://en.wikipedia.org/wiki/Types_of_business_entity).

There are various types of company that can be formed in different jurisdictions, but the most common forms of company are:

* *a*[*company limited by guarantee*](http://en.wikipedia.org/wiki/Company_limited_by_guarantee). Commonly used where companies are formed for non-commercial purposes, such as clubs or charities. The members guarantee the payment of certain (usually nominal) amounts if the company goes into [insolvent liquidation](http://en.wikipedia.org/wiki/Liquidation), but otherwise they have no economic rights in relation to the company.
* *a company limited by guarantee with a share capital*. A hybrid entity, usually used where the company is formed for non-commercial purposes, but the activities of the company are partly funded by investors who expect a return.
* *a*[*company limited by shares*](http://en.wikipedia.org/wiki/Private_limited_company_by_shares). The most common form of company used for business ventures.
* *an*[*unlimited company*](http://en.wikipedia.org/wiki/Unlimited_Company) either with or without a share capital. This is a hybrid company, a company similar to its limited company (Ltd.) counterpart but where the members or shareholders do not benefit from limited liability should the company ever go into formal [liquidation](http://en.wikipedia.org/wiki/Liquidation).

There are, however, many specific categories of corporations and other business organizations which may be formed in various countries and [jurisdictions](http://en.wikipedia.org/wiki/Jurisdiction) throughout the world.

Articles of association

A company is an incorporated body. So there should be some rules and regulations are to be formed for the management of its internal affairs and conduct of its business as well as the relation between the members and the company. Moreover the rights and duties of its members and the company are to be recorded. There comes the need and origin of Articles of Association. The Articles of Association is a document that contains the purpose of the company as well as the duties and responsibilities of its members defined and recorded clearly. It is an important document which needs to be filed with the Registrar of companies. Articles of Association are a document which all companies should prepare.

The Article of Association contains the following details: 1. The powers of directors, officers and the shareholders as to voting etc., 2. The mode and form in which the business of the company is to be carried out. 3. The mode and form in which the changes in the internal regulations can be made. 4. The rights, duties and powers of the company as well as the members who are included in the Articles of Association.

The article is binding not only to the existing members, but also to the future members who may join in the future. The hires of members, successors and legal representatives are also bound by whatever is contained in the Article. The Articles bind the company and its members as soon as they sign the document. It is a contract between the company and its members. Members have certain rights and duties towards the company and the company have certain obligations towards its members. At the same time the company also expects some duties and obligations which the member has to fulfil for the smooth functioning of the company.

The term **articles of association** of a company, or [**articles of incorporation**](http://en.wikipedia.org/wiki/Articles_of_incorporation), of an American or Canadian Company, are often simply referred to as **articles** (and are often capitalized as an abbreviation for the full term). The Articles are a requirement for the establishment of a [company](http://en.wikipedia.org/wiki/Company_(law)) under the law of [India](http://en.wikipedia.org/wiki/India), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom) Pakistan and many other countries. Together with the [memorandum of association](http://en.wikipedia.org/wiki/Memorandum_of_association), they are the constitution of a company. The equivalent term for [LLC](http://en.wikipedia.org/wiki/Limited_liability_company) is [Articles of Organization](http://en.wikipedia.org/wiki/Articles_of_Organization). Roughly equivalent terms operate in other countries, such as *Gesellschaftsvertrag* in Germany, *statuts* in France, *statut* in Poland, [[1]](http://en.wikipedia.org/wiki/Articles_of_association#cite_note-0) *Jeong-gwan* in South Korea.

The following is largely based on British Company Law, references which are made at the end of this Article.

The Articles can cover a medley of topics, not all of which is required in a country's law. Although all terms are not discussed, they may cover:

* the issuing of [shares](http://en.wikipedia.org/wiki/Shares) (also called [stock](http://en.wikipedia.org/wiki/Stock)), different voting rights attached to different classes of shares
* valuation of intellectual rights, say, the valuations of the IPR of one partner and, in a similar way as how we value real estate of another partner
* the appointments of directors - which shows whether a shareholder dominates or shares equality with all contributors
* directors meetings - the quorum and percentage of vote
* management decisions - whether the board manages or a founder
* transferability of shares - assignment rights of the founders or other members of the company do
* special voting rights of a Chairman, and his/her mode of election
* the [dividend policy](http://en.wikipedia.org/wiki/Dividend_policy) - a percentage of profits to be declared when there is profit or otherwise
* winding up - the conditions, notice to members
* confidentiality of know-how and the founders' agreement and penalties for disclosure
* first right of refusal - purchase rights and counter-bid by a founder.

A Company is essentially run by the shareholders, but for convenience, and day-to-day working, by the elected Directors. Usually, the shareholders elect a Board of Directors (BOD) at the Annual General Meeting (AGM), which may be statutory (e.g. India).

The number of Directors depends on the size of the Company and statutory requirements. The Chairperson is generally a well-known outsider but he /she may be a working Executive of the company, typically of an American Company. The Directors may, or may not, be employees of the Company.

In the emerging countries there are usually some major shareholders who come together to form the company. Each usually has the right to nominate, without objection of the other, a certain number of Directors who become nominees for the election by the shareholder body at the AGM. The Treasurer and Chairperson is usually the privilege of one of the JV partners (which nomination can be shared). Shareholders may also elect Independent Directors (from the public). The Chair would be a person not associated with the promoters of the company; a person is generally a well-known outsider.

Once elected, the BOD manages the Company. The shareholders play no part till the next AGM/EGM. The Objectives and the purpose of the Company are determined in advance by the shareholders and the Memorandum of Association (MOA), if separate, which denotes the name of the Company, its Head- Office, street address, and (founding) Directors and the main purposes of the Company - for public access. It cannot be changed except at an AGM or Extraordinary General Meeting (EGM) and statutory allowance. The MOA is generally filed with a 'Registrar of Companies' who is an appointee of the Government of the country. For their assurance, the shareholders are permitted to elect an Auditor at each AGM. There can be Internal Auditors (employees) as well as an External Auditor.

The Board meets several times each year. At each meeting there is an 'agenda' before it. A minimum number of Directors (a quorum) is required to meet. This is either determined by the 'by-laws' or is a statutory requirement. It is presided over by the Chairperson, or in his absence, by the Vice-Chair. The Directors survey their area of responsibility. They may determine to make a 'Resolution' at the next AGM or if it is an urgent matter, at an EGM. The Directors who are the electives of one major shareholder, may present his/her view but this is not necessarily so - they may have to view the Objectives of the Company and competitive position. The Chair may have to 'break' the vote if there is a 'tie'. At the AGM, the various Resolutions are put to vote.

The AGM is called with a notice sent to all shareholders with a clear interval. A certain quorum of shareholders is required to meet. If the quorum requirement is not met, it is cancelled and another Meeting called. If it at that Meeting a quorum is also not met, a Third Meeting may be called and the members present, unlimited by the quorum, take all decisions. There are variations to this among companies and countries.

Decisions are taken by a show of hands; the Chair is always present. Where decisions are made by a show of hands is challenged, it is met by a count of votes. Voting can be taken in person or by marking the paper sent by the Company. A person who is not a shareholder of the Company can vote if he/she has the 'proxy', an authorization from the shareholder. Each share carries the number of votes attached to it. Some votes maybe for the decision, some not. Two types of decision known are the Ordinary Resolution and a Special Resolution.

A Special Resolution can be tabled at a Director's Meeting. The Ordinary Resolution requires the endorsement by a majority vote, sometimes easily met by partners' vote. The Special Resolution requires a 60, 70 or 80% of the vote as stipulated by the 'constitution' of the Company. Shareholders other than partners may vote. The matters which require the Ordinary and Special Resolution to be passed are enumerated in Company or Corporate Law. Special Resolutions covering some topics may be a statutory requirement.

In the United Kingdom, model articles of association, known as [Table A](http://en.wikipedia.org/wiki/Table_A) have been published since 1865.[[3]](http://en.wikipedia.org/wiki/Articles_of_association#cite_note-2) The articles of association of most companies incorporated prior to 1 October 2009 – particularly small companies – are Table A, or closely derived from it. However, a company is free to incorporate under different articles of association, or to amend its articles of association at any time by a [special resolution](http://en.wikipedia.org/wiki/Special_resolution) of its shareholders, provided that they meet the requirements and restrictions of the Companies Acts. Such requirements tend to be more onerous for [public companies](http://en.wikipedia.org/wiki/Public_company) than for [private ones](http://en.wikipedia.org/wiki/Private_company_limited_by_shares).

The [Companies Act 2006](http://en.wikipedia.org/wiki/Companies_Act_2006) received [Royal Assent](http://en.wikipedia.org/wiki/Royal_Assent) on 8 November 2006 and was fully implemented on 1 October 2009. It provides for a new form of [Model Articles](http://en.wikipedia.org/wiki/Model_Articles) for companies incorporated in the United Kingdom. Under the new legislation, the articles of association will become the single [constitutional document](http://en.wikipedia.org/wiki/Constitutional_documents) for a UK company, and will subsume the majority of the role previously filled by the separate memorandum of association.[[4]](http://en.wikipedia.org/wiki/Articles_of_association#cite_note-3)

Sole proprietorship

A **sole proprietorship**, also known as the **sole trader** or simply a **proprietorship**, is a type of [business entity](http://en.wikipedia.org/wiki/Business_entity) that is owned and run by one individual and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor and all debts of the business are the proprietor's. This means that the owner has no less liability than if they were acting as an individual instead of as a business. It is a "sole" proprietorship in contrast with [partnerships](http://en.wikipedia.org/wiki/Partnership). **Definition by Glos&Baker.** "A sole proprietorship is a business owned by one person who is entitled to all of its profits" A sole proprietor may use a [trade name](http://en.wikipedia.org/wiki/Trade_name) or business name other than his or her legal name. In many jurisdictions there are rules to enable the true owner of a business name to be ascertained. In the United States there is generally a requirement to file a [*doing business as*](http://en.wikipedia.org/wiki/Doing_business_as) statement with the local authorities.[[1]](http://en.wikipedia.org/wiki/Sole_Proprietorship#cite_note-0) In the United Kingdom the proprietor's name must be displayed on business stationery, in business emails and at business premises, and there are other requirements.[[2]](http://en.wikipedia.org/wiki/Sole_Proprietorship#cite_note-1)

Advantages

There are many advantages of [corporations](http://en.wikipedia.org/wiki/Corporation) that are described in that article; chiefly they are the ability to raise capital either publicly or privately, to limit the personal liability of the officers and managers, and to limit risk to investors. Sole proprietorships also have the least government rules and regulations affecting it.

Disadvantages

Raising capital for a proprietorship is more difficult because an unrelated investor has less peace of mind concerning the use and security of his or her investment and the investment is more difficult to formalize;[[3]](http://en.wikipedia.org/wiki/Sole_Proprietorship#cite_note-2) other types of business entities have more documentation.

As a business becomes successful, the risks accompanying the business tend to grow. One of the main disadvantages of sole proprietors is [unlimited liability](http://en.wikipedia.org/wiki/Sole_Trader_Insolvency) where the owner's personal assets can be taken away. This is particularly true for liabilities created by employees; a corporation only partially shields an owner or officer for his own actions according to the principle of [*piercing the corporate veil*](http://en.wikipedia.org/wiki/Piercing_the_corporate_veil). Lack of continuity as well. The enterprise may be crippled or terminated if the owner becomes ill. Since the business is the same legal entity as the proprietor, it ceases to exist upon the proprietor's death. Because the enterprise rests exclusively on one person, it often has difficulty raising long-term capital.

General partnership

In the commercial and legal parlance of most countries, a **general partnership** (the basic form of [**partnership**](http://en.wikipedia.org/wiki/Partnership) under [common law](http://en.wikipedia.org/wiki/Common_law)), refers to an association of persons or an unincorporated company with the following major features:

* Created by agreement, proof of existence and [estoppel](http://en.wikipedia.org/wiki/Estoppel).
* Formed by two or more persons
* The owners are all personally [liable](http://en.wikipedia.org/wiki/Legal_liability) for any legal actions and [debts](http://en.wikipedia.org/wiki/Debt) the company may face

It is a partnership in which partners share equally in both responsibility and liability.[[1]](http://en.wikipedia.org/wiki/General_partnership#cite_note-0)

Characteristics

Partnerships have certain default characteristics relating to both (a) the relationship between the individual partners and (b) the relationship between the partnership and the outside world. The former can generally be overridden by agreement between the partners, whereas the latter generally cannot be done.

The assets of the business are owned on behalf of the other partners, and they are each personally liable, [jointly and severally](http://en.wikipedia.org/wiki/Joint_and_several_liability), for business debts, taxes or [tortious](http://en.wikipedia.org/wiki/Tort) liability. For example, if a partnership defaults on a payment to a creditor, the partners' personal assets are subject to attachment and liquidation to pay the creditor.

By default, profits are shared equally amongst the partners. However, a partnership agreement will almost invariably expressly provide for the manner in which profits and losses are to be shared.

Each general partner is deemed the [agent](http://en.wikipedia.org/wiki/Agency_(law)) of the partnership. Therefore, if that partner is apparently carrying on partnership business, all general partners can be held liable for his dealings with third persons.

By default a partnership will terminate upon the death, disability, or even withdrawal of any one partner. However, most partnership agreements provide for these types of events, with the share of the departed partner usually being purchased by the remaining partners in the partnership.

By default, each general partner has an equal right to participate in the management and control of the business. Disagreements in the ordinary course of partnership business are decided by a majority of the partners, and disagreements of extraordinary matters and amendments to the partnership agreement require the consent of all partners. However, in a partnership of any size the partnership agreement will provide for certain electees to manage the partnership along the lines of a company board.

Unless otherwise provided in the partnership agreement, no one can become a member of the partnership without the consent of all partners, though a partner may assign his share of the profits and losses and right to receive distributions ("transferable interest"). A partner's [judgment](http://en.wikipedia.org/wiki/Legal_judgment) creditor may obtain an order charging the partner's "transferable interest" to satisfy a judgment.

Company formation

**Company formation** is the term for the process of [incorporation](http://en.wikipedia.org/wiki/Incorporation_(business)) of a business in the UK. It is also sometimes referred to as **company registration**. Under [UK company law](http://en.wikipedia.org/wiki/UK_company_law) and most international law a company or corporation is considered to be an entity that is separate from the people who own or operate the company.

Today the majority of UK companies are formed the same day electronically. Companies can be created by individuals, specialised agents, solicitors or accountants. Many solicitors and accountants subcontract incorporation out to specialised company formation agents. Most agents offer company formation packages for less than £100. The cost of carrying out paper filing directly with Companies House is £20. This fee does not include the cost of witnessing documents or preparation of [memorandum & articles of association](http://en.wikipedia.org/wiki/Memorandum_of_association) for the company which would usually be carried out by a solicitor or accountant. Forming a company via the paper filing method can take up to 4 weeks.

## Formation process for private limited companies

### Paper process

Under section 9 of the [Companies Act 2006](http://en.wikipedia.org/wiki/Companies_Act_2006),[[1]](http://en.wikipedia.org/wiki/Company_Formation#cite_note-0) those forming a company must send the following documents, together with the registration fee, to the Registrar of Companies.

For detailed information see the [Companies House](http://en.wikipedia.org/wiki/Companies_House) guide.[[2]](http://en.wikipedia.org/wiki/Company_Formation#cite_note-1)

#### Articles of Association

The Articles of Association (often referred to as just ‘articles’) is the document which sets out the rules for the running of the company's internal affairs. The company's articles delivered to the Registrar must be signed by each subscriber in front of a witness who must attest the signature.

In the event that articles are not registered for the new company, model (default) articles will be registered. These model articles can be chosen to be adopted in the IN01 form. This new procedure was introduced by the Companies Act 2006, Section 20.[[3]](http://en.wikipedia.org/wiki/Company_Formation#cite_note-2)

#### Form IN01

This contains the intended situation of the Registered Office, (this will be either in England and Wales, Northern Ireland, Scotland or Wales), the details of the consenting Secretary and Director(s), details of the subscribers and, in the case of a company limited by shares, details of the share capital. The form also includes the Statement of Compliance that the requirements of the Companies Act have been complied with.

#### Memorandum of Association

This contains the names and signatures of the subscribers that wish to form the company and, in the case of a company limited by shares, a commitment by the subscribers to take at least one share each. A draft template is available on the Companies House website.[[4]](http://en.wikipedia.org/wiki/Company_Formation#cite_note-3)

### Electronic process

The [electronic process](http://en.wikipedia.org/wiki/Electronic_process_of_law) can be accessed using compatible software that works with the [Companies House](http://en.wikipedia.org/wiki/Companies_House) eFiling service[[5]](http://en.wikipedia.org/wiki/Company_Formation#cite_note-4) and an account with Companies House. Company formation agents have direct links into Companies House, to look up the company name, and submit the company. Different agents have differences in their processes caused by their website and software implementation. Companies House have a list of company formation agents that have passed integration testing.[[6]](http://en.wikipedia.org/wiki/Company_Formation#cite_note-5)

## Types of company

The following can be formed by registration at Companies House:

* [Public limited company](http://en.wikipedia.org/wiki/Public_limited_company) (plc)
* [Private company limited by shares](http://en.wikipedia.org/wiki/Private_company_limited_by_shares) (Ltd, Limited)
* [Company limited by guarantee](http://en.wikipedia.org/wiki/Company_limited_by_guarantee)
* [Unlimited company](http://en.wikipedia.org/wiki/Unlimited_company)
* [Limited liability partnership](http://en.wikipedia.org/wiki/Limited_liability_partnership) (LLP)
* [Limited partnership](http://en.wikipedia.org/wiki/Limited_partnership) (LP)
* [Societas Europaea](http://en.wikipedia.org/wiki/Societas_Europaea) (SE): European Union-wide company structure
* [Community interest company](http://en.wikipedia.org/wiki/Community_interest_company)
* [European economic interest grouping](http://en.wikipedia.org/wiki/European_economic_interest_grouping) (EEIG)

Limited partnership

A **limited partnership** is a form of [partnership](http://en.wikipedia.org/wiki/Partnership) similar to a [general partnership](http://en.wikipedia.org/wiki/General_partnership), except that in addition to one or more *general partners* (GPs), there are one or more *limited partners* (LPs). It is a partnership in which only one partner is required to be a general partner.[[1]](http://en.wikipedia.org/wiki/Limited_partnership#cite_note-0)

The GPs are, in all major respects, in the same legal position as partners in a conventional firm, i.e. they have management control, share the right to use partnership property, share the profits of the firm in predefined proportions, and have [joint and several liability](http://en.wikipedia.org/wiki/Joint_and_several_liability) for the [debts](http://en.wikipedia.org/wiki/Debt) of the partnership.

As in a general partnership, the GPs have actual authority as [agents](http://en.wikipedia.org/wiki/Agency_(law)) of the firm to bind all the other partners in [contracts](http://en.wikipedia.org/wiki/Contract) with third parties that are in the ordinary course of the partnership's business. As with a general partnership, "An act of a general partner which is not apparently for carrying on in the ordinary course the limited partnership's activities or activities of the kind carried on by the limited partnership binds the limited partnership only if the act was actually authorized by all the other partners."[[2]](http://en.wikipedia.org/wiki/Limited_partnership#cite_note-1)

Limited liability

Like [shareholders](http://en.wikipedia.org/wiki/Shareholder) in a [corporation](http://en.wikipedia.org/wiki/Corporation), LPs have [limited liability](http://en.wikipedia.org/wiki/Limited_liability), meaning they are only liable on debts incurred by the firm to the extent of their registered investment and have no management authority. The GPs pay the LPs a return on their investment (similar to a [dividend](http://en.wikipedia.org/wiki/Dividend)), the nature and extent of which is usually defined in the partnership agreement. General Partners thus carry more liability, and in cases of financial loss, the GPs will be liable.

LP members are subject to the same alter ego [piercing theories](http://en.wikipedia.org/wiki/Piercing_the_corporate_veil) as corporate shareholders. However, it is more difficult to pierce the LP veil because LPs do not have a great many formalities to maintain. So long as the LP and the members do not commingle funds, it would be difficult to pierce its veil.[[3]](http://en.wikipedia.org/wiki/Limited_partnership#cite_note-2)

Membership interests in LPs and partnership interests are afforded a significant level of protection through the [charging order](http://en.wikipedia.org/wiki/Charging_order) mechanism. The charging order limits the creditor of a debtor-partner or a debtor-member to the debtor’s share of distributions, without conferring on the creditor any voting or management rights.[[4]](http://en.wikipedia.org/wiki/Limited_partnership#cite_note-3)

When the partnership is being constituted or the composition of the firm is changing, LPs are generally required to file documents with the relevant [state](http://en.wikipedia.org/wiki/Jurisdiction_(area)) registration office. LPs must also explicitly disclose their LP status when dealing with other parties, so that such parties are on notice that the individual negotiating with them carries limited liability. It is customary that the notepaper, other documentation, and electronic materials issued to the public by the firm will carry a clear statement identifying the legal nature of the firm and listing the partners separately as general and limited. Hence, unlike the GPs, the LPs do not have inherent [agency](http://en.wikipedia.org/wiki/Agency_(law)) authority to bind the firm unless they are subsequently *held out* as agents and so create an agency by [estoppel](http://en.wikipedia.org/wiki/Estoppel) or acts of ratification by the firm create ostensible authority.

Limited partnerships are distinct from [limited liability partnerships](http://en.wikipedia.org/wiki/Limited_liability_partnership), in which all partners have limited liability. In some jurisdictions, the limited liability of the LPs is contingent on their not participating in management.

Limited liability partnership

A **limited liability partnership** (**LLP**) is a partnership in which some or all partners (depending on the jurisdiction) have limited liability. It therefore exhibits elements of [partnerships](http://en.wikipedia.org/wiki/Partnership) and [corporations](http://en.wikipedia.org/wiki/Corporation).[[1]](http://en.wikipedia.org/wiki/Limited_liability_partnership#cite_note-0) In an LLP, one partner is not responsible or liable for another partner's misconduct or negligence. This is an important difference from that of an unlimited partnership. In an LLP, some partners have a form of [limited liability](http://en.wikipedia.org/wiki/Limited_liability) similar to that of the shareholders of a corporation.[[2]](http://en.wikipedia.org/wiki/Limited_liability_partnership#cite_note-1) In some countries, an LLP must also have at least one "general partner" with unlimited liability. Unlike corporate shareholders, the partners have the right to manage the business directly. In contrast, corporate shareholders have to elect a board of directors under the laws of various state charters. The board organizes itself (also under the laws of the various state charters) and hires corporate officers who then have as "corporate" individuals the legal responsibility to manage the corporation in the corporation's best interest. An LLP also contains a different level of tax liability from that of a corporation.

Limited liability partnerships are distinct from [limited partnerships](http://en.wikipedia.org/wiki/Limited_partnerships) in some countries, which may allow all LLP partners to have limited liability, while a limited partnership may require at least one unlimited partner and allow others to assume the role of a passive and limited liability investor. As a result, in these countries, the LLP is more suited for businesses where all investors wish to take an active role in management.

Limited company

A **limited company** is a [company](http://en.wikipedia.org/wiki/Company) in which the liability of the members or subscribers of the company is limited to what they have invested or guaranteed to the company. Limited companies may be limited by [shares](http://en.wikipedia.org/wiki/Share_(finance)) or by guarantee. And the former of these, a limited company limited by shares, may be further divided into public companies and private companies. Who may become a member of a private limited company is restricted by law and by the company's rules. In contrast anyone may buy shares in a public limited company.

Limited companies can be found in most countries, although the detailed rules governing them vary widely. It is also common for a distinction to be made between the publicly tradable companies of *plc* type (for example, the German [Aktiengesellschaft](http://en.wikipedia.org/wiki/Aktiengesellschaft) (AG), Czech a.s. and the Mexican, French, Polish and Romanian [S.A.](http://en.wikipedia.org/wiki/S.A._(corporation))), and the "private" types of company (such as the [German](http://en.wikipedia.org/wiki/German_language) [GmbH](http://en.wikipedia.org/wiki/Gesellschaft_mit_beschr%C3%A4nkter_Haftung), [Polish](http://en.wikipedia.org/wiki/Polish_language) Sp. z o.o., the [Czech](http://en.wikipedia.org/wiki/Czech_language) s.r.o. and [Slovak](http://en.wikipedia.org/wiki/Slovak_language) s.r.o.).

## Kinds

### Private company limited by guarantee

A company that does not have share capital, but is guaranteed by its *members* who agree to pay a fixed amount in the event of the company's liquidation. [Charitable organisations](http://en.wikipedia.org/wiki/Charitable_organisation) often incorporate using this form of limited liability. Another example is the [Financial Services Authority](http://en.wikipedia.org/wiki/Financial_Services_Authority). In Australia, only an unlisted public company can be limited by guarantee.[[1]](http://en.wikipedia.org/wiki/Limited_company#cite_note-0)

### Private company limited by shares

Has shareholders with limited liability and its shares may not be offered to the general public. Shareholders of private companies limited by shares are often bound to offer the shares to their fellow shareholders prior to selling them to a third party.[[2]](http://en.wikipedia.org/wiki/Limited_company#cite_note-1)

### Public limited company

Public limited companies can be [publicly traded](http://en.wikipedia.org/wiki/Public_company) on a [stock exchange](http://en.wikipedia.org/wiki/Stock_exchange) — similar to the [U.S.](http://en.wikipedia.org/wiki/United_States) [Corporation](http://en.wikipedia.org/wiki/Corporation) (Corp.) and the [German](http://en.wikipedia.org/wiki/Germany) [Aktiengesellschaft](http://en.wikipedia.org/wiki/Aktiengesellschaft) (AG).

Limited liability company

A **limited liability company** (**LLC**) is a flexible form of enterprise that blends elements of partnership and corporate structures. It is a legal form of [company](http://en.wikipedia.org/wiki/Company) that provides [limited liability](http://en.wikipedia.org/wiki/Limited_liability) to its owners in the vast majority of [United States](http://en.wikipedia.org/wiki/United_States) jurisdictions. LLCs do not need to be organized for profit.

Overview

Often incorrectly called a "limited liability *corporation*" (instead of *company*), it is a hybrid business entity having certain characteristics of both a [corporation](http://en.wikipedia.org/wiki/Corporation) and a [partnership](http://en.wikipedia.org/wiki/Partnership) or [sole proprietorship](http://en.wikipedia.org/wiki/Sole_proprietorship) (depending on how many owners there are). An LLC, although a business entity, is a type of [unincorporated association](http://en.wikipedia.org/wiki/Voluntary_association) and is not a corporation. The primary characteristic an LLC shares with a corporation is [limited liability](http://en.wikipedia.org/wiki/Limited_liability), and the primary characteristic it shares with a partnership is the availability of [pass-through](http://en.wikipedia.org/wiki/Flow-through_entity) [income taxation](http://en.wikipedia.org/wiki/Taxation_in_the_United_States). It is often more flexible than a corporation, and it is well-suited for companies with a single owner.

LLC members are subject to the same alter ego [piercing theories](http://en.wikipedia.org/wiki/Piercing_the_corporate_veil) as corporate shareholders. However, it is more difficult to pierce the LLC veil because LLCs do not have many formalities to maintain. So long as the LLC and the members do not [commingle](http://en.wikipedia.org/wiki/Commingling) funds, it would be difficult to pierce its veil.[[1]](http://en.wikipedia.org/wiki/Limited_liability_company#cite_note-0) Membership interests in LLCs and partnership interests are also afforded a significant level of protection through the [charging order](http://en.wikipedia.org/wiki/Charging_order) mechanism. The charging order limits the creditor of a debtor-partner or a debtor-member to the debtor’s share of distributions, without conferring on the creditor any voting or management rights.[[2]](http://en.wikipedia.org/wiki/Limited_liability_company#cite_note-1) Limited liability company members may, in certain circumstances, also incur a personal liability in cases where distributions to members render the LLC insolvent.[[3]](http://en.wikipedia.org/wiki/Limited_liability_company#cite_note-2)

Flexibility and default rules

The phrase "unless otherwise provided for in the operating agreement" (or its equivalent) is found throughout all existing LLC statutes and is responsible for the flexibility the members of the LLC have in deciding how their LLC will be governed (provided it does not go outside legal bounds). State statutes typically provide automatic or "default" rules for how an LLC will be governed unless the operating agreement provides otherwise.

Similarly, the phrase “unless otherwise provided for in the bylaws” is also found in all corporation law statutes but often refers only to a narrower range of matters.

Unlimited company

An **unlimited company** or **private unlimited company** is a hybrid [company](http://en.wikipedia.org/wiki/Company) incorporated either with or without a share capital (and similar to its [limited company](http://en.wikipedia.org/wiki/Limited_liability) counterpart) but where the liability of the members or shareholders is not limited - that is, its members or shareholders have a joint, several and unlimited obligation to meet any insufficiency in the assets of the company in the event of the company's formal [liquidation](http://en.wikipedia.org/wiki/Liquidation). The joint, several and unlimited liability of the members or shareholders of the company to meet any insufficiency in the assets of the company (to settle its outstanding liabilities if any exist) only applies upon the formal liquidation of the company. Therefore, prior to any such formal liquidation of the company, any creditors or security holders of the company may only have recourse to the assets of the company and not to those of its members or shareholders.

Until such event occurs (formal liquidation) - an unlimited company is similar with its counterpart the limited company where its members or shareholders have no direct liability to the creditors or security holders of the company during its normal course of business or existence.

Unlimited companies are found in the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), [Ireland](http://en.wikipedia.org/wiki/Ireland), [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong), [Pakistan](http://en.wikipedia.org/wiki/Pakistan), [Nigeria](http://en.wikipedia.org/wiki/Nigeria), [India](http://en.wikipedia.org/wiki/India), [Australia](http://en.wikipedia.org/wiki/Australia), [New Zealand](http://en.wikipedia.org/wiki/New_Zealand) and other [jurisdictions](http://en.wikipedia.org/wiki/Jurisdiction_(area)) where the [company law](http://en.wikipedia.org/wiki/Company_law) is derived from [English law](http://en.wikipedia.org/wiki/English_law). They can also be found in [Germany](http://en.wikipedia.org/wiki/Germany), [France](http://en.wikipedia.org/wiki/France), [Macao](http://en.wikipedia.org/wiki/Macao), [Czech Republic](http://en.wikipedia.org/wiki/Czech_Republic) and in two jurisdictions in [Canada](http://en.wikipedia.org/wiki/Canada)—[Alberta](http://en.wikipedia.org/wiki/Alberta) and [Nova Scotia](http://en.wikipedia.org/wiki/Nova_Scotia)—where they are called [unlimited liability corporations](http://en.wikipedia.org/wiki/Unlimited_liability_corporation). In the United Kingdom they are formed or incorporated by registration under the [Companies Act 2006](http://en.wikipedia.org/wiki/Companies_Act_2006).

An unlimited company has the benefit and status of incorporation same as its limited company counterpart. Situations where an unlimited company will be preferred to an alternative business model or its limited company counterpart include:

* secrecy concerning financial affairs is desired, effectively shielding and protecting its financial affairs from its competitors and making them non-public information including shareholder dividend payments: a United Kingdom unlimited company, unlike its limited company counterpart, is generally not required to publish or make public its company [financial statements](http://en.wikipedia.org/wiki/Financial_statements) (file its annual financial accounts at [Companies House](http://en.wikipedia.org/wiki/Companies_House)).[[1]](http://en.wikipedia.org/wiki/Unlimited_company#cite_note-0)
* the company is trading in an area where limited liability is not acceptable, vital or practical.
* extending, in general, a greater assurance and confidence to creditors - in contrast to its *limited company* counterpart.
* there is a low risk of insolvency.
* the company or its trading activities has or generates sufficient capital, funds or financing without need to approach general lenders such as high-street retail banks.
* developing more advantageous company and business capital strategies in an ever increasing irreversible trend of bank [disintermediation](http://en.wikipedia.org/wiki/Disintermediation) by companies and their management.
* a focused higher standard of [board of directors](http://en.wikipedia.org/wiki/Board_of_directors) and [executive management](http://en.wikipedia.org/wiki/Senior_management) behaviour (or probity) and [business model](http://en.wikipedia.org/wiki/Business_model) for [risk management](http://en.wikipedia.org/wiki/Risk_management).
* a [flow-through entity](http://en.wikipedia.org/wiki/Flow-through_entity) is required for United States federal tax purposes, under the [entity classification](http://en.wikipedia.org/wiki/Corporate_tax_in_the_United_States#Entity_classification) rules.

Once formed or incorporated, an unlimited company can in some jurisdictions also re-register and designate itself to limited company status at any time with few formalities, the same also extends to a limited company which may at any time re-register and designate itself to an unlimited company status.

The Companies Act, 1956

|  |
| --- |
| [Emblem of India.svg](http://en.wikipedia.org/wiki/File:Emblem_of_India.svg) |
| An Act to consolidate and amend the law relating to companies and certain other associations |

**The Companies Act 1956** is an [Act](http://en.wikipedia.org/wiki/Act_of_Parliament) of the [Parliament of India](http://en.wikipedia.org/wiki/Parliament_of_India), enacted in 1956, which enabled [companies](http://en.wikipedia.org/wiki/Company) to be formed by registration, and set out the responsibilities of companies, their [directors](http://en.wikipedia.org/wiki/Executive_director) and [secretaries](http://en.wikipedia.org/wiki/Company_secretary).[[1]](http://en.wikipedia.org/wiki/The_Companies_Act,_1956#cite_note-0)

The Companies Act 1956 is administered by the [Government of India](http://en.wikipedia.org/wiki/Government_of_India) through the [Ministry of Corporate Affairs](http://en.wikipedia.org/wiki/Ministry_of_Corporate_Affairs_(India)) and the Offices of Registrar of Companies, Official Liquidators, Public Trustee, [Company Law Board](http://en.wikipedia.org/wiki/Company_Law_Board), Director of Inspection, etc. The Registrar of Companies (ROC) handles incorporation of new companies and the administration of running companies.

Since its commencement, it has been amended many times, in which amendment of 198, 1990, 1996, 2000 and 2011 are notable.

Corporate law of Japan

Japan's current corporate law is based upon the Commercial Code as amended through December 30, 2005.[[31]](http://en.wikipedia.org/wiki/Law_of_Japan#cite_note-30) Shareholder liability rules generally follow American example. Under Japanese law the basic types of companies are:

* [Limited liability partnerships](http://en.wikipedia.org/wiki/Limited_liability_partnership) (*yūgen sekinin jigyō kumiai*)
* [Kabushiki kaisha](http://en.wikipedia.org/wiki/Kabushiki_kaisha) (K.K.), similar to an Anglo-American [corporation](http://en.wikipedia.org/wiki/Corporation)
* [Godo kaisha](http://en.wikipedia.org/wiki/Godo_kaisha) (GDK), similar to an American [limited liability company](http://en.wikipedia.org/wiki/Limited_liability_company)
* [Gōmei kaisha](http://en.wikipedia.org/wiki/G%C5%8Dmei_gaisha) (GMK), similar to an Anglo-American [general partnership](http://en.wikipedia.org/wiki/General_partnership)
* [Gōshi kaisha](http://en.wikipedia.org/wiki/G%C5%8Dshi_gaisha) (GSK), similar to an Anglo-American [limited partnership](http://en.wikipedia.org/wiki/Limited_partnership)

Kabushiki gaisha

**Kabushiki gaisha** ([株式会社](http://en.wiktionary.org/wiki/%E6%A0%AA%E5%BC%8F%E4%BC%9A%E7%A4%BE)[**?**](http://en.wikipedia.org/wiki/Help:Installing_Japanese_character_sets), lit. "stock companies") is a type of business corporation ([会社](http://en.wiktionary.org/wiki/%E4%BC%9A%E7%A4%BE) *kaisha*[**?**](http://en.wikipedia.org/wiki/Help:Installing_Japanese_character_sets)) defined under [Japanese law](http://en.wikipedia.org/wiki/Law_of_Japan).

## Formation

A kabushiki gaisha may be started with capital as low as ¥1, making the total cost of a K.K. incorporation approximately ¥240,000 (about US$2,500) in taxes and notarization fees. Under the old Commercial Code, a K.K. required starting capital of ¥10 million (about US$105,000); a lower capital requirement was later instituted, but corporations with under ¥3 million in assets were barred from issuing [dividends](http://en.wikipedia.org/wiki/Dividend), and companies were required to increase their capital to ¥10 million within five years of formation.[[7]](http://en.wikipedia.org/wiki/Kabushiki_kaisha#cite_note-Terrie-6)

The main steps in incorporation are the following:

1. Preparation and notarization of [articles of incorporation](http://en.wikipedia.org/wiki/Articles_of_incorporation)
2. Receipt of [capital](http://en.wikipedia.org/wiki/Financial_capital), either directly or through an offering

The incorporation of a K.K. is carried out by one or more incorporators (発起人 *hokkinin*, sometimes referred to as "promoters"). Although seven incorporators were required as recently as the 1980s, a K.K. now only needs one incorporator, which may be an individual or a corporation. If there are multiple incorporators, they must sign a [partnership](http://en.wikipedia.org/wiki/Partnership) agreement before incorporating the company.

### Articles of incorporation

The articles of incorporation of a K.K. must include, at a minimum:

1. The [trade name](http://en.wikipedia.org/wiki/Trade_name) of the company
2. The purposes of the company
3. The location of its head office
4. The value or minimum amount of assets received in exchange for the initial issuance of shares
5. The name and address of the incorporator(s)

The purpose statement requires some specialized knowledge, as Japan follows an [ultra vires](http://en.wikipedia.org/wiki/Ultra_vires) doctrine and does not allow a K.K. to act beyond its purposes. [Judicial](http://en.wikipedia.org/wiki/Judicial_scrivener) or [administrative scriveners](http://en.wikipedia.org/wiki/Administrative_scrivener) are often hired to draft the purposes of a new company.

Additionally, the articles of incorporation must contain the following if applicable:

1. Any non-cash assets contributed as capital to the company, the name of the contributor and the number of shares issued for such assets
2. Any assets promised to be purchased after the incorporation of the company and the name of the provider
3. Any compensation to be paid to the incorporator(s)
4. Non-routine incorporation expenses that will be borne by the company

Other matters may also be included, such as limits on the number of directors and auditors. The Corporation Code allows a K.K. to be formed as a "stock company that is not a public company"(公開会社でない株式会社 *kōkai gaisha denai kabushiki gaisha*), or a (so-called) "close company" (非公開会社 *hi-kōkai gaisha*), in which case the board of directors must approve any transfer of shares between shareholders; this designation must be made in the articles of incorporation.

The articles must be sealed by the incorporator(s) and notarized by a [notary public](http://en.wikipedia.org/wiki/Notary_public), then filed with the Legal Affairs Bureau in the jurisdiction where the company will have its head office.

### Receipt of capital

In a direct incorporation, each incorporator receives a specified amount of stock as designated in the articles of incorporation. Each incorporator must then promptly pay its share of the starting capital of the company, and if no directors have been designated in the articles of incorporation, meet to determine the initial directors and other officers.

The other method is an "incorporation by offering," in which each incorporator becomes the [underwriter](http://en.wikipedia.org/wiki/Underwriter) of a specified number of shares (at least one each), and the other shares are offered to other investors. As in a direct incorporation, the incorporators must then hold an organizational meeting to appoint the initial directors and other officers. Any person wishing to receive shares must submit an application to the incorporator, and then make payment for his or her shares by a date specified by the incorporator(s).

Capital must be received in a [commercial bank](http://en.wikipedia.org/wiki/Commercial_bank) account designated by the incorporator(s), and the bank must provide certification that payment has been made. Once the capital has been received and certified, the incorporation may be registered at the Legal Affairs Bureau.

German company law

**German company law** (*Gesellschaftsrecht*) is an influential legal regime for companies in Germany. The primary form of company is the public company or [*Aktiengesellschaft*](http://en.wikipedia.org/wiki/Aktiengesellschaft) (AG). The private company with limited liability is known as a [*Gesellschaft mit beschränkter Haftung*](http://en.wikipedia.org/wiki/Gesellschaft_mit_beschr%C3%A4nkter_Haftung) (GmbH). A partnership is called a [*Kommanditgesellschaft*](http://en.wikipedia.org/wiki/Kommanditgesellschaft) (KG).

Aktiengesellschaft

***Aktiengesellschaft*** (abbreviated **AG**) is a [German](http://en.wikipedia.org/wiki/German_language) term that refers to a [corporation](http://en.wikipedia.org/wiki/Corporation) that is limited by [shares](http://en.wikipedia.org/wiki/Share_(finance)), i.e., owned by [shareholders](http://en.wikipedia.org/wiki/Shareholder), and may be traded on a [stock market](http://en.wikipedia.org/wiki/Stock_market). The term is used in [Germany](http://en.wikipedia.org/wiki/Germany), [Austria](http://en.wikipedia.org/wiki/Austria) and [Switzerland](http://en.wikipedia.org/wiki/Switzerland). It is also used occasionally in [Luxembourg](http://en.wikipedia.org/wiki/Luxembourg) (though the French-language equivalent, *Société Anonyme*, is more common) and for companies incorporated in the German-speaking region of [Belgium](http://en.wikipedia.org/wiki/Belgium).[[1]](http://en.wikipedia.org/wiki/Aktiengesetz#cite_note-farlex-0) The form is roughly equivalent to the “[public limited company](http://en.wikipedia.org/wiki/Public_limited_company)” (plc) in the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom) and [Republic of Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland), to the “[publicly-held/open corporation](http://en.wikipedia.org/wiki/Public_company)” in the [United States](http://en.wikipedia.org/wiki/United_States), to the [naamloze vennootschap](http://en.wikipedia.org/wiki/Naamloze_vennootschap) in the [Netherlands](http://en.wikipedia.org/wiki/Netherlands) and [Belgium](http://en.wikipedia.org/wiki/Belgium), to the [S.A.](http://en.wikipedia.org/wiki/S.A._(corporation)) in [Spain](http://en.wikipedia.org/wiki/Spain), France, [Portugal](http://en.wikipedia.org/wiki/Portugal) and other [civil-law](http://en.wikipedia.org/wiki/Civil_law_(legal_system)) jurisdictions, and to the [Societas Europaea](http://en.wikipedia.org/wiki/Societas_Europaea) in the European Union.

Meaning of the word

The [German](http://en.wikipedia.org/wiki/German_language) word *Aktiengesellschaft* is a compound noun made up of two elements: *Aktien* meaning [shares](http://en.wikipedia.org/wiki/Shares), and [*Gesellschaft*](http://en.wikipedia.org/wiki/Gesellschaft) meaning society, or, in this context, company. Other types of German companies also have shares, although these shares are called *Anteile* rather than *Aktien*. A similar distinction exists in other languages; for example, in [Polish](http://en.wikipedia.org/wiki/Polish_language) the two types of share are called *akcja* and *udział*, or in [Spanish](http://en.wikipedia.org/wiki/Spanish_language), *acción* and *cuota*.

Legal basis

In Germany and Austria, the legal basis of the AG is the respective [Aktiengesetz](http://www.bundesrecht.juris.de/bundesrecht/aktg/) (abbr. AktG). In Switzerland, it is contained within the *Obligationenrecht* (OR). The lawrequires all corporations to specify their legal form in their name which tells the public their limitation of [liability](http://en.wikipedia.org/wiki/Legal_liability), all German (required by § 4 Aktiengesetz) and Austrian stock corporations include *Aktiengesellschaft* or *AG* as part of their name, frequently as a suffix.

Structure

German AGs have a "two-tiered board" structure consisting of a supervisory board (*Aufsichtsrat*) and a management board (*Vorstand*). The supervisory board is generally controlled by shareholders, although employees may have seats depending on the size of the company. The management board directly runs the company, but its members may be removed by the supervisory board, which also determines the management board's compensation.[[2]](http://en.wikipedia.org/wiki/Aktiengesetz#cite_note-geek-1) Some German AGs have management boards which determine their own remuneration, but that situation is now relatively uncommon.

Gesellschaft mit beschränkter Haftung

***Gesellschaft mit beschränkter Haftung*** (abbreviated **GmbH**, **GesmbH** or **Ges.m.b.H.**) (English: [*company with limited liability*](http://en.wikipedia.org/wiki/Limited_liability_company)) is a type of [legal entity](http://en.wikipedia.org/wiki/Juristic_person) very common in [Germany](http://en.wikipedia.org/wiki/Germany), [Austria](http://en.wikipedia.org/wiki/Austria), [Switzerland](http://en.wikipedia.org/wiki/Switzerland), and other [Central European](http://en.wikipedia.org/wiki/Central_Europe) countries. The name of the GmbH form emphasizes the fact that the owners (*Gesellschafter*, also known as members) of the entity are not personally liable for the company's debts.[[1]](http://en.wikipedia.org/wiki/Gesellschaft_mit_beschr%C3%A4nkter_Haftung#cite_note-0)[[2]](http://en.wikipedia.org/wiki/Gesellschaft_mit_beschr%C3%A4nkter_Haftung#cite_note-1) *GmbH*s are considered legal persons under German law.

Requirements of formation

It is widely accepted that a GmbH is formed in three stages: the founding association, which is regarded as a private partnership with full liability of the founding partners/members; the founded company (often styled as "GmbH i.G.", with "i.G." standing for *in Gründung* – literally "in the founding stages", with the meaning of "registration pending"); and finally the fully registered GmbH. Only the registration of the company in the Commercial Register ([*Handelsregister*](http://en.wikipedia.org/wiki/German_Trade_Register)) provides the GmbH with its full legal status.

The founding act and the articles of association have to be [notarized](http://en.wikipedia.org/wiki/Civil_law_notary). The GmbH law outlines the minimum content of the articles of association, but it is quite common to have a wide range of additional rules in the articles.

Under German law, the GmbH must have a minimum founding capital of €10,000. A supervisory board (*Aufsichtsrat*) is required if the company has more than 500 employees, otherwise the company is run only by the managing directors (*Geschäftsführer*) who have unrestricted proxy for the company. The members acting collectively may restrict the powers of the managing directors by giving them binding orders. In most cases, the articles of association list the business activities for which the directors must obtain prior consent from the members. Under German law, a violation of these duties by a managing director will not affect the validity of a contract with a third party, but the GmbH may hold the managing director in question liable for damages.

As of 2008, a derivate form called **Unternehmergesellschaft (haftungsbeschränkt)** (English: *entrepreneurial company (limited liability)*) or short **UG (haftungsbeschränkt)** was introduced. It does not require a minimum founding capital, and was introduced to assist company founders in setting up a new company. Also, the UG must accumulate 25% of its yearly earnings as legal reserve until it reaches €25,000. The owners may then decide to increase capital and rebrand to GmbH, or may omit the suffix *haftungsbeschränkt*.

Because a legal entity with liability limited to the contributed capital was regarded in the 19th century as something dangerous, German law has many restrictions unknown to [common law](http://en.wikipedia.org/wiki/Common_law) systems. A number of business transactions have to be [notarized](http://en.wikipedia.org/wiki/Civil_law_notary), such as transfer of shares, issuing of stock, and amendments to the articles of association. Many of those measures have to be filed with the company registry where they are checked by special judges or other judicial officers. This can be a tiresome and time-consuming process as in most cases the desired measures are only legally valid when entered into the registry. Because there is no central company registry in Germany but rather several hundred connected to regional courts, the administration of the law can be rather different between [German states](http://en.wikipedia.org/wiki/States_of_Germany). Since 2007 there has been an internet-based central company register for the whole of Germany, called ["Unternehmensregister"](https://www.unternehmensregister.de/ureg/).

Differences between GmbH in Germany, Austria, Switzerland and Liechtenstein

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Differences** | **Germany** | **Austria** | **Switzerland** | **Liechtenstein** |
| Minimum [share capital](http://en.wikipedia.org/wiki/Share_capital) | €25,000.00 | €35,000.00 | CHF20,000.00 | CHF30,000.00 |
| Mandatory [supervisory board](http://en.wikipedia.org/wiki/Supervisory_board) | 500 employees | 300 employees |  |  |

Kommanditgesellschaft

A **Kommanditgesellschaft** (abbreviated "KG") is the German name for a [limited partnership](http://en.wikipedia.org/wiki/Limited_partnership) [business entity](http://en.wikipedia.org/wiki/Types_of_business_entity) and is used in [German](http://en.wikipedia.org/wiki/Germany), [Austrian](http://en.wikipedia.org/wiki/Austria) and some other [European](http://en.wikipedia.org/wiki/European_Union) [legal](http://en.wikipedia.org/wiki/Law) systems.

Partnerships may be formed in the legal forms of [General Partnership](http://en.wikipedia.org/wiki/General_Partnership) (Offene Handelsgesellschaft, OHG) or [Limited Partnership](http://en.wikipedia.org/wiki/Limited_Partnership) (Kommanditgesellschaft, KG).

In the OHG, all partners are fully liable for the partnership's debts, whereas in the KG there are general partners (Komplementär) with unlimited liability and limited partners (Kommanditisten) whose liability is restricted to their fixed contributions to the partnership. Although a partnership itself is not a legal entity, it may acquire rights and incur liabilities, acquire title to real estate and sue or be sued.

The [**GmbH**](http://en.wikipedia.org/wiki/Gesellschaft_mit_beschr%C3%A4nkter_Haftung)**& Co. KG** is a limited partnership with, typically, the sole general partner being a limited liability company. It can thus combine the advantages of a partnership with those of the limited liability of a corporation.

A Dormant Partnership (Stille Gesellschaft) comes into existence when a person makes a contribution to an existing enterprise (company, partnership, sole proprietorship) and shares in the latter's profits. The dormant partner has no liability for the debts of the enterprise; in case of insolvency of the enterprise he is a creditor with the portion of his contribution not consumed by losses. Strictly speaking, the dormant partnership is nothing more than an 'undisclosed participation'.

A Civil-Law Association is not a legal entity and cannot sue or be sued. It is often used for single joint ventures (e.g. construction projects) and comes to an end when the joint project has been completed.

A Private Foundation (Privatstiftung) constitutes a conglomeration of property having legal personality but no shareholders; its activities involve managing its own funds and assets for the beneficiaries.

Types of business entity in Russia

There are three **types of business entity in Russia**. These are: Limited Liability Companies (LLCs), Joint-Stock Companies (JSCs) and partnerships. Both of the first two of these are [joint-stock companies](http://en.wikipedia.org/wiki/Joint-stock_companies) (in that they are owned by their shareholders) and have [limited liability](http://en.wikipedia.org/wiki/Limited_liability) (the shareholders are only liable for the company's debts to the face value of the shares).

## Joint-Stock Companies

There are two types of Russian Joint-Stock Companies:

1. Open joint-stock company ([Russian](http://en.wikipedia.org/wiki/Russian_language): [Открытое акционерное общество](http://ru.wikipedia.org/wiki/%D0%9E%D1%82%D0%BA%D1%80%D1%8B%D1%82%D0%BE%D0%B5_%D0%B0%D0%BA%D1%86%D0%B8%D0%BE%D0%BD%D0%B5%D1%80%D0%BD%D0%BE%D0%B5_%D0%BE%D0%B1%D1%89%D0%B5%D1%81%D1%82%D0%B2%D0%BE) (abbreviated OAO), is a legal entity whose shares may be publicly traded without the permission of other shareholders. An OAO can distribute its shares to an unlimited number of shareholders and sell them without limitations. The statutory minimum charter capital is 100,000 Russian [roubles](http://en.wikipedia.org/wiki/Roubles).
2. Closed joint-stock company ([Russian](http://en.wikipedia.org/wiki/Russian_language): [Закрытое акционерное общество](http://ru.wikipedia.org/wiki/%D0%97%D0%B0%D0%BA%D1%80%D1%8B%D1%82%D0%BE%D0%B5_%D0%B0%D0%BA%D1%86%D0%B8%D0%BE%D0%BD%D0%B5%D1%80%D0%BD%D0%BE%D0%B5_%D0%BE%D0%B1%D1%89%D0%B5%D1%81%D1%82%D0%B2%D0%BE) (abbreviated ZAO), is a legal entity whose shares are distributed among a limited number of shareholders. The maximum number of shareholders is 50. The statutory minimum charter capital is 10,000 Russian roubles.

Founders of a joint-stock company sign a written agreement for its formation which establishes procedures for creating the company, such as the size of authorized capital, the types and categories of shares, the cost of shares, the order for settling payments, and the rights and responsibilities of the founders. This agreement then becomes the organization charter, which contains information on the name of the company, the locations of offices, the type of company (OAO or ZAO), and other specific information on shares, capital, and so on. The company shares allotted upon founding the company must be fully paid within a year from the company's foundation, unless a shorter period is required by the founding contract. However, at least half of the shares must be paid within three months from the state registration of the company. A share which has been paid does not necessarily give voting rights to its owner.[[1]](http://en.wikipedia.org/wiki/Types_of_business_entity_in_Russia#cite_note-0)

Joint-stock companies are required to register the issue of shares with the Russian Federal Securities Market Commission (FSMC) in order to enable the shares to be traded either publicly (for an OAO) or among a limited number of people (for a ZAO). For registration, a set of documents must be submitted to the FSMC, and the procedure usually takes 30 days to enact.

### State-owned corporations

In [Russia](http://en.wikipedia.org/wiki/Russia), a JSC can be wholly or partially owned by the federal government. Such JSCs are different from another type of state-controlled company, the [unitary enterprise](http://en.wikipedia.org/wiki/Unitary_enterprise), which is a commercial organization that operates state-owned assets; state-owned JSCs do not own or operate any state property and the state acts just like an ordinary shareholder.

Some state-owned public corporations were formerly government agencies in the [Soviet Union](http://en.wikipedia.org/wiki/Soviet_Union) which were reorganized into wholly state-owned JSCs in 1992-1993 in order to undergo transition to a fully independent business. The management and the board of directors in such state-owned corporations were appointed by the [Council of Ministers](http://en.wikipedia.org/wiki/Russian_Council_of_Ministers)/[the government](http://en.wikipedia.org/wiki/Government_of_Russia), and included top government officials and ministers. The biggest of such corporations were initially incorporated as Russian joint-stock companies (RAOs) - the most well-known examples were [RAO UES](http://en.wikipedia.org/wiki/RAO_UES) and [RAO Gazprom](http://en.wikipedia.org/wiki/Gazprom) - but have since been converted to public JSCs (OAO), even though their shares remain the property of the government.

Less important or partially owned JSCs are managed through the [Federal Agency for State Property Management](http://en.wikipedia.org/wiki/Rosimushchestvo).

### Disadvantages

While a joint-stock company presents several advantages over a typical business establishment, the burden of creating a JSC typically outweighs that of a [limited liability company](http://en.wikipedia.org/wiki/Limited_liability_company) (LLC). This is especially true in Russia where the abnormally excessive legal and bureaucratic challenges facing prospective [entrepreneurs](http://en.wikipedia.org/wiki/Entrepreneur) typically dissuade most from starting a JSC.[[2]](http://en.wikipedia.org/wiki/Types_of_business_entity_in_Russia#cite_note-doingbusiness-1) Without the need to issue shares in an LLC, it makes [limited liability companies](http://en.wikipedia.org/wiki/Limited_liability_company) much more flexible when the need arises for the members to change the charter capital of the company. Furthermore, a limited liability company can collectively or individually hold at least a 10% percent interest in the company’s charter capital do not the power to request a court expel another participant.[[2]](http://en.wikipedia.org/wiki/Types_of_business_entity_in_Russia#cite_note-doingbusiness-1) All of this not capable in a joint-stock company, or prohibitively difficult. In any case, the benefits of a joint-stock company are often outweighed by those of an LLC.

European Company Regulation

The **Council Regulation on the Statute for a European Company** [2157/2001](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32001R2157:EN:HTML) is an [EU Regulation](http://en.wikipedia.org/wiki/EU_Regulation) containing the rules for a public EU company, called a **Societas Europaea**, or "SE". An SE can register in any [member state of the European Union](http://en.wikipedia.org/wiki/Member_state_of_the_European_Union), and transfer to other member states. As of January 2011, at least 702 registrations have been reported.[[1]](http://en.wikipedia.org/wiki/European_Company_Regulation#cite_note-0) Examples of companies registered as a European Company are [Allianz SE](http://en.wikipedia.org/wiki/Allianz), [BASF SE](http://en.wikipedia.org/wiki/BASF),[Strabag SE](http://en.wikipedia.org/wiki/Strabag), [Gfk SE](http://en.wikipedia.org/wiki/GfK) and [MAN SE](http://en.wikipedia.org/wiki/MAN_SE). National law continues to supplement the basic rules in the Regulation on formation and mergers.

The European Company Regulation is complemented by an [Employee Involvement Directive](http://en.wikipedia.org/wiki/Employee_Involvement_Directive) which sets rules for participation by employees on the company's [board of directors](http://en.wikipedia.org/wiki/Board_of_directors). There is also a statute allowing [European Cooperative Societies](http://en.wikipedia.org/wiki/European_Cooperative_Society).

There is no EU-wide register of SEs (an SE is registered on the national register of the member state in which it has its head office), but each registration is to be published in the [Official Journal of the European Union](http://en.wikipedia.org/wiki/Official_Journal_of_the_European_Union).

## Main provisions of the statute

### Formation

The Statute provides four ways of forming a European limited company: merger, formation of a holding company, formation of a joint subsidiary, or conversion of a public limited company previously formed under [national law](http://en.wikipedia.org/wiki/National_law). Formation by merger is available only to public limited companies from different Member States. Formation of an SE holding company is available to public and private limited companies with their registered offices in different Member States or having subsidiaries or branches in Member States other than that of their registered office. Formation of a joint subsidiary is available under the same circumstances to any legal entities governed by public or private law. See "The European Company all over Europe" De Gruyter Recht - Berlin for a general overview of the European process.[[2]](http://en.wikipedia.org/wiki/European_Company_Regulation#cite_note-1)

SEs can be created in the following ways:

1. By merger of national companies from different member states
2. By the creation of a joint venture between companies (or other entities) in different member states
3. By the creation of a SE subsidiary of a national company
4. By the conversion of a national company into an SE

### Minimum capital

The SE must have a minimum subscribed capital of €120,000, as per article 4(2) of the directive, subject to the provision that where a Member State requires a larger capital for companies exercising certain types of activities, the same requirement will also apply to an SE with its registered office in that Member State (article 4(3)).

### Registered office

The registered office of the SE designated in the statutes must be the place where it has its central administration, that is to say its true centre of operations. The SE may transfer its registered office within the Community without dissolving the company in one Member State in order to form a new one in another Member State, however, such a transfer is subject to the provisions of 8 which require, inter alia, the drawing up of a transfer proposal, a report justifying the legal and economic aspects of the transfer and the issuing, by the competent authority in the member state in which the SE is registered, of a certificate attesting to the completion of the required acts and formalities.

### Registration and liquidation

The registration and completion of the liquidation of an SE must be disclosed for information purposes in the Official Journal of the European Communities. Every SE must be registered in the State where it has its registered office, in a register designated by the law of that State.

### Statutes

The Statutes of the SE must provide as governing bodies the [general meeting of shareholders](http://en.wikipedia.org/wiki/Shareholders%27_meeting) and either a management board and a supervisory board (two-tier system) or an administrative board (single-tier system). Under the two-tier system the SE is managed by a management board. The member or members of the management board have the power to represent the company in dealings with third parties and in legal proceedings. They are appointed and removed by the [supervisory board](http://en.wikipedia.org/wiki/Supervisory_board). No person may be a member of both the management board and the supervisory board of the same company at the same time. But the supervisory board may appoint one of its members to exercise the functions of a member of the management board in the event of absence through holidays. During such a period the function of the person concerned as a member of the supervisory board shall be suspended. Under the single-tier system, the SE is managed by an administrative board. The member or members of the administrative board have the power to represent the company in dealings with third parties and in legal proceedings. Under the single-tier system the administrative board may delegate the power of management to one or more of its members.

The following operations require the authorization of the supervisory board or the deliberation of the administrative board:

* any investment project requiring an amount more than the percentage of subscribed capital;
* the conclusion of supply and performance contracts where the total turnover provided for therein is more than the percentage of turnover for the previous financial year;
* the raising or granting of loans, the issue of [debt](http://en.wikipedia.org/wiki/Debt) [securities](http://en.wikipedia.org/wiki/Security_(finance)) and the assumption of liabilities of a third party or [suretyship](http://en.wikipedia.org/wiki/Suretyship) for a third party where the total [money](http://en.wikipedia.org/wiki/Money) value in each case is more than the percentage of subscribed capital;
* the setting-up, acquisition, disposal or closing down of undertakings, businesses or parts of businesses where the purchase price or disposal proceeds account for more than the percentage of subscribed capital;
* the percentage referred to above is to be determined by the Statutes of the SE. It may not be less than 5% nor more than 25%.

### Annual accounts

The SE must draw up annual accounts comprising the balance sheet, the profit and loss account and the notes to the accounts, and an annual report giving a fair view of the company's business and of its position; consolidated accounts may also be required.

### Taxation

In tax matters, the SE is treated the same as any other multinational, i.e. it is subject to the tax regime of the national legislation applicable to the company and its subsidiaries. SEs are subject to taxes and charges in all Member States where their administrative centres are situated. Thus their tax status is not perfect as there is still no adequate harmonization at European level.

### Winding-up

Winding-up, liquidation, insolvency and suspension of payments are in large measure to be governed by national law. An SE which transfers its registered office outside the Community, or in any other manner no longer complies with requirements of article 7, the member state must take appropriate measures to ensure compliance or take the necessary measure to ensure that the SE is liquidated.

European Cooperative Society

The **European Cooperative Society** (**SCE**, for [Latin](http://en.wikipedia.org/wiki/Latin) *Societas Cooperativa Europaea*) is, in [company law](http://en.wikipedia.org/wiki/Company_law), a European [co-operative](http://en.wikipedia.org/wiki/Co-operative) [type](http://en.wikipedia.org/wiki/Types_of_corporations) of [company](http://en.wikipedia.org/wiki/Company), established in 2006 and related to the [European Company](http://en.wikipedia.org/wiki/European_Company_Statute). European Cooperative Societies may be established, and may operate, throughout the [European Economic Area](http://en.wikipedia.org/wiki/European_Economic_Area) (including the [European Community](http://en.wikipedia.org/wiki/European_Community)). The legal form was created to remove the need for co-operatives to establish a [subsidiary](http://en.wikipedia.org/wiki/Subsidiary) in each [Member State](http://en.wikipedia.org/wiki/European_Union_member_state) in which they operate, and to allow them to move their [registered office](http://en.wikipedia.org/wiki/Registered_office) and [head office](http://en.wikipedia.org/wiki/Head_office) freely from one Member State to another, keeping their [legal identity](http://en.wikipedia.org/wiki/Legal_person) and without having to register or [wind up](http://en.wikipedia.org/wiki/Liquidation) any [legal persons](http://en.wikipedia.org/wiki/Legal_person). No matter where they are established, SCEs are governed by a single [EEA](http://en.wikipedia.org/wiki/European_Economic_Area)-wide set of rules and principles which are supplemented by the laws on co-operatives in each Member State, and other areas of [law](http://en.wikipedia.org/wiki/Law).

Formation

Article 2(1) of the SCE Regulation [[1]](http://en.wikipedia.org/wiki/European_Cooperative_Society#cite_note-SCE_Regulation-0) provides for SCEs to be formed in five ways:

* *ex novo*: by five or more [natural persons](http://en.wikipedia.org/wiki/Natural_person) resident in at least two Member States
* by a merger between at least two EEA co-operatives governed by the law of at least two different Member States;
* by at least five natural and [legal persons](http://en.wikipedia.org/wiki/Legal_person) resident in, or governed by the law of, at least two Member States;
* by conversion of a single EEA co-operative, if it has had an establishment or subsidiary in a different Member State for at least two years.
* by two or more legal persons governed by the law of at least two Member States;

European economic interest grouping

A **European Economic Interest Grouping** (EEIG) is a type of [legal entity](http://en.wikipedia.org/wiki/Juristic_person) created on 1985-07-25 under [European Community](http://en.wikipedia.org/wiki/European_Community) (EC) Council [Regulation](http://en.wikipedia.org/wiki/Regulation_(European_Union)) [2137/85](http://en.wikipedia.org/w/index.php?title=Council_Regulation_(EC)_No._2137/85&action=edit&redlink=1)[[1]](http://en.wikipedia.org/wiki/European_economic_interest_grouping#cite_note-0). It is designed to make it easier for companies in different countries to do business together or to form [consortia](http://en.wikipedia.org/wiki/Consortium) to take part in EU programmes.

Its activities must be ancillary to those of its members, and, as with a [partnership](http://en.wikipedia.org/wiki/Partnership), any profit or loss it makes is attributed to its members. Thus, although it is liable for [VAT](http://en.wikipedia.org/wiki/VAT) and employees’ [social insurance](http://en.wikipedia.org/wiki/Social_insurance), it is not liable to [corporation tax](http://en.wikipedia.org/wiki/Corporation_tax). It has [unlimited liability](http://en.wikipedia.org/wiki/Unlimited_liability). It was based on the pre-existing French *groupement d´intérêt économique* (G.i.e.).

Several thousand EEIGs now exist, active in fields as varied as agricultural marketing, legal advice, research and development, osteopathy, motorcycle preservation and cat-breeding. One of the more famous EEIGs is the Franco-German television channel [*ARTE*](http://en.wikipedia.org/wiki/ARTE)[[2]](http://en.wikipedia.org/wiki/European_economic_interest_grouping#cite_note-1).

Corporate law

**Corporate law** (also "company" or "corporations" law) is the study of how [shareholders](http://en.wikipedia.org/wiki/Shareholders), [directors](http://en.wikipedia.org/wiki/Board_of_directors), [employees](http://en.wikipedia.org/wiki/Employees), [creditors](http://en.wikipedia.org/wiki/Creditors), and other stakeholders such as [consumers](http://en.wikipedia.org/wiki/Consumer), the [community](http://en.wikipedia.org/wiki/Community) and the [environment](http://en.wikipedia.org/wiki/Environment_(biophysical)) interact with one another. Corporate law is a part of a broader [companies law](http://en.wikipedia.org/wiki/Companies_law) (or law of business associations). Other types of business associations can include [partnerships](http://en.wikipedia.org/wiki/Partnership) (in the UK governed by the Partnership Act 1890), or [trusts](http://en.wikipedia.org/wiki/Trusts) (like a pension fund), or companies limited by guarantee (like some universities or charities). Under corporate law, corporations of all sizes have [separate legal personality](http://en.wikipedia.org/wiki/Separate_legal_personality), with [limited liability](http://en.wikipedia.org/wiki/Limited_liability) or [unlimited liability](http://en.wikipedia.org/wiki/Unlimited_company) for its shareholders. Shareholders control the company through a [board of directors](http://en.wikipedia.org/wiki/Board_of_directors) which, in turn, typically delegates control of the corporation's day to day operations to a full-time [executive](http://en.wikipedia.org/wiki/Executive_(management)). Corporate law deals with firms that are incorporated or registered under the corporate or company law of a [sovereign state](http://en.wikipedia.org/wiki/Sovereign_state) or their [subnational states](http://en.wikipedia.org/wiki/Administrative_division). The four defining characteristics of the modern corporation are: [[1]](http://en.wikipedia.org/wiki/Corporate_law#cite_note-0)

* [Separate Legal Personality](http://en.wikipedia.org/wiki/Separate_Legal_Personality) of the corporation (access to tort and contract law in a manner similar to a person)
* [Limited Liability](http://en.wikipedia.org/wiki/Limited_Liability) of the shareholders (a shareholder's personal liability is limited to the value of their shares in the corporation)
* [Shares](http://en.wikipedia.org/wiki/Share_(finance)) (if the corporation is a [public company](http://en.wikipedia.org/wiki/Public_company), the shares are traded on a [stock exchange](http://en.wikipedia.org/wiki/Stock_exchange), such as the [London Stock Exchange](http://en.wikipedia.org/wiki/London_Stock_Exchange), [New York Stock Exchange](http://en.wikipedia.org/wiki/New_York_Stock_Exchange), [Euronext](http://en.wikipedia.org/wiki/Euronext) in [Paris](http://en.wikipedia.org/wiki/Paris) or [BM&F Bovespa](http://en.wikipedia.org/wiki/BM%26F_Bovespa) in [Sao Paulo](http://en.wikipedia.org/wiki/Sao_Paulo))
* [Delegated Management](http://en.wikipedia.org/wiki/Delegation); the [board of directors](http://en.wikipedia.org/wiki/Board_of_directors) delegates day-to-day management of the company to [executives](http://en.wikipedia.org/wiki/Executive_(management))

In most developed countries outside of the English speaking world, company boards are appointed as representatives of both shareholders and employees to "[codetermine](http://en.wikipedia.org/wiki/Codetermination)" company strategy [[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]. Corporate law is often divided into [corporate governance](http://en.wikipedia.org/wiki/Corporate_governance) (which concerns the various power relations within a corporation) and [corporate finance](http://en.wikipedia.org/wiki/Corporate_finance) (which concerns the rules on how capital is used). A major contributor to company law in the UK is the [Companies Act 2006](http://en.wikipedia.org/wiki/Companies_Act_2006).

## Corporate law in context

### Definition

The word "corporation" is generally synonymous with large publicly owned companies. In the United States, a company may or may not be a separate legal entity, and is often used synonymously with "firm" or "business." A [corporation](http://en.wikipedia.org/wiki/Corporation) may accurately be called a company; however, a company should not necessarily be called a corporation, which has distinct characteristics. According to [Black's Law Dictionary](http://en.wikipedia.org/wiki/Black%27s_Law_Dictionary), in the U.S. a company means "a corporation — or, less commonly, an association, partnership or union — that carries on industrial enterprise."[[2]](http://en.wikipedia.org/wiki/Corporate_law#cite_note-1)

The defining feature of a corporation is its legal independence from the people who create it. If a corporation fails, its shareholders will lose their money, and employees will lose their jobs, though disproportionately affecting its workers as opposed to its upper executives. Shareholders, however owning a part piece of the company, are not liable for debts that remain owing to the corporation's creditors. This rule is called [limited liability](http://en.wikipedia.org/wiki/Limited_liability), and it is why corporations end with "[Ltd.](http://en.wikipedia.org/wiki/Ltd.)" (or some variant like "[Inc.](http://en.wikipedia.org/wiki/Incorporation_(business))" and "[plc](http://en.wikipedia.org/wiki/Public_limited_company)").

Corporations are recognized by the law to have rights and responsibilities like actual people. Corporations can exercise [human rights](http://en.wikipedia.org/wiki/Human_rights) against real individuals and the state, [[4]](http://en.wikipedia.org/wiki/Corporate_law#cite_note-3) and they may be responsible for human rights violations.[[5]](http://en.wikipedia.org/wiki/Corporate_law#cite_note-4) Just as they are "born" into existence through its members obtaining a [certificate of incorporation](http://en.wikipedia.org/wiki/Certificate_of_incorporation), they can "die" when they lose money into [insolvency](http://en.wikipedia.org/wiki/Insolvency). Corporations can even be convicted of criminal offences, such as [fraud](http://en.wikipedia.org/wiki/Fraud) and [manslaughter](http://en.wikipedia.org/wiki/Manslaughter).[[6]](http://en.wikipedia.org/wiki/Corporate_law#cite_note-5)

### Corporate personality

One of the key legal features of corporations is their separate legal personality, also known as "personhood" or being "artificial persons". Separate legal personality often has [unintended consequences](http://en.wikipedia.org/wiki/Unintended_consequence), particularly in relation to smaller, [family companies](http://en.wikipedia.org/wiki/Family_company).

Separate legal personality does allow corporate groups a great deal of flexibility in relation to tax planning, and also enables [multinational companies](http://en.wikipedia.org/wiki/Multinational_corporation) to manage the liability of their overseas operations. There are certain specific situations where courts are generally prepared to "[pierce the corporate veil](http://en.wikipedia.org/wiki/Piercing_the_corporate_veil)", to look directly at, and impose liability directly on the individuals behind the company. The most commonly cited examples are:

* where the company is a mere façade
* where the company is effectively just the agent of its members or controllers
* where a representative of the company has taken some personal responsibility for a statement or action[[14]](http://en.wikipedia.org/wiki/Corporate_law#cite_note-13)
* where the company is engaged in fraud or other criminal wrongdoing
* where the natural interpretation of a contract or statute is as a reference to the corporate group and not the individual company
* where permitted by statute (for example, many jurisdictions provide for shareholder liability where a company breaches [environmental protection laws](http://en.wikipedia.org/wiki/Environmental_law))
* in many jurisdictions, where a company continues to trade despite foreseeable [bankruptcy](http://en.wikipedia.org/wiki/Bankruptcy), the directors can be forced to account for trading losses personally

Incorporation (business)

**Incorporation** (**Inc.**) is the forming of a new [corporation](http://en.wikipedia.org/wiki/Corporation) (a corporation being a legal entity that is effectively [recognised as a person under the law](http://en.wikipedia.org/wiki/Corporate_personhood)). The corporation may be a business, a [non-profit organization](http://en.wikipedia.org/wiki/Non-profit_organization), [sports club](http://en.wikipedia.org/wiki/Sports_club), or a [government](http://en.wikipedia.org/wiki/Government) of a new [city](http://en.wikipedia.org/wiki/City) or [town](http://en.wikipedia.org/wiki/Town). This article focuses on the process of incorporation; see also [corporation](http://en.wikipedia.org/wiki/Corporation).

## In the United States

### Legal benefits

* **Protection of personal assets**. One of the most important legal benefits is the safeguarding of personal assets against the claims of creditors and lawsuits. Sole proprietors and general partners in a [partnership](http://en.wikipedia.org/wiki/Partnership) are personally and jointly responsible for all the [liabilities](http://en.wikipedia.org/wiki/Legal_liability) of a business such as loans, accounts payable, and legal judgments. In a corporation, however, [stockholders](http://en.wikipedia.org/wiki/Stockholders), [directors](http://en.wikipedia.org/wiki/Board_of_directors) and [officers](http://en.wikipedia.org/wiki/Chief_executive_officer) typically are not liable for the company's debts and obligations. They are limited in liability to the amount they have invested in the corporation. For example, if a shareholder purchased $100 in stock, no more than $100 can be lost. Corporations and [limited liability companies](http://en.wikipedia.org/wiki/Limited_liability_company) (LLCs) may hold assets such as real estate, cars or boats. If a shareholder of a corporation is personally involved in a lawsuit or [bankruptcy](http://en.wikipedia.org/wiki/Bankruptcy), these assets may be protected. A creditor of a shareholder of a corporation or LLC cannot seize the assets of the company. However, the creditor can seize ownership shares in the corporation, as they are considered a personal asset.
* **Transferable ownership**. Ownership in a corporation or LLC is easily transferable to others, either in whole or in part. Some state laws are particularly corporate-friendly. For example, the transfer of ownership in a corporation incorporated in [Delaware](http://en.wikipedia.org/wiki/Delaware_corporation) is not required to be filed or recorded.
* **Retirement funds**. Retirement funds and qualified retirements plans, such as a [401(k)](http://en.wikipedia.org/wiki/401(k)), may be established more easily.
* **Taxation**. In the United States, corporations are [taxed](http://en.wikipedia.org/wiki/Tax) at a lower rate than individuals are. Also, they can own shares in other corporations and receive corporate dividends 80% tax-free. There are no limits on the amount of losses a corporation may carry forward to subsequent tax years. A sole proprietorship, on the other hand, cannot claim a capital loss greater than $3,000 unless the owner has offsetting capital gains.
* **Raising funds through sale of stock**. A corporation can easily raise capital from investors through the sale of stock.
* **Durability**. A corporation is capable of continuing indefinitely. Its existence is not affected by the death of shareholders, directors, or officers of the corporation.
* **Credit rating**. Regardless of an owner's personal [credit scores](http://en.wikipedia.org/wiki/Credit_score), a corporation can acquire its own [credit rating](http://en.wikipedia.org/wiki/Credit_rating), and build a separate credit history by applying for and using corporate credit.

### Steps required for incorporation

The [articles of incorporation](http://en.wikipedia.org/wiki/Articles_of_incorporation) (also called a [charter](http://en.wikipedia.org/wiki/Charter), [certificate of incorporation](http://en.wikipedia.org/wiki/Certificate_of_incorporation) or [letters patent](http://en.wikipedia.org/wiki/Letters_patent)) are filed with the appropriate state office, listing the purpose of the corporation, its principal place of business and the number and type of shares of stock.[[1]](http://en.wikipedia.org/wiki/Incorporation_(business)#cite_note-0) A registration fee is due, which is usually between $25 and $1,000, depending on the state.

A corporate name is generally made up of three parts: "distinctive element", "descriptive element", and a legal ending. All corporations must have a distinctive element, and in most filing jurisdictions, a legal ending to their names. Some corporations choose not to have a descriptive element. In the name "Tiger Computers, Inc.", the word "Tiger" is the distinctive element; the word "Computers" is the descriptive element; and the "Inc." is the legal ending. The legal ending indicates that it is in fact a legal corporation and not just a [business registration](http://en.wikipedia.org/wiki/Business_License) or [partnership](http://en.wikipedia.org/wiki/Partnership). Incorporated, limited, and corporation, or their respective abbreviations (Inc., Ltd., Corp.) are the possible legal endings in the U.S.

Usually, there are also [corporate bylaws](http://en.wikipedia.org/wiki/Bylaw) which must be filed with the state. Bylaws outline a number of important administrative details such as when annual shareholder meetings will be held, who can vote and the manner in which shareholders will be notified if there is need for an additional "special" meeting.

Corporate liability

In [criminal law](http://en.wikipedia.org/wiki/Criminal_law), **corporate liability** determines the extent to which a [corporation](http://en.wikipedia.org/wiki/Corporation) as a [legal person](http://en.wikipedia.org/wiki/Legal_person) can be liable for the acts and [omissions](http://en.wikipedia.org/wiki/Omission_(criminal_law)) of the [natural persons](http://en.wikipedia.org/wiki/Natural_person) it employs. It is sometimes regarded as an aspect of criminal [vicarious liability](http://en.wikipedia.org/wiki/Vicarious_liability_(criminal)), as distinct from the situation in which the wording of a [statutory](http://en.wikipedia.org/wiki/Statutory) offence specifically attaches liability to the corporation as the principal or joint principal with a human agent.

The concepts

The imposition of criminal liability is only one means of regulating corporations. There are also [civil law](http://en.wikipedia.org/wiki/Civil_law_(common_law)) [remedies](http://en.wikipedia.org/wiki/Remedy_(law)) such as [injunction](http://en.wikipedia.org/wiki/Injunction) and the award of [damages](http://en.wikipedia.org/wiki/Damages) which may include a penal element. Generally, criminal sanctions include [imprisonment](http://en.wikipedia.org/wiki/Imprisonment), fines and community service orders. A company has no physical existence, so it can only act vicariously through the agency of the human beings it employs. While it is relatively uncontroversial that human beings may commit crimes for which [punishment](http://en.wikipedia.org/wiki/Punishment) is a just desert, the extent to which the corporation should incur liability is less clear. Obviously, a [company](http://en.wikipedia.org/wiki/Company_(law)) cannot be sent to [jail](http://en.wikipedia.org/wiki/Prison), and if a [fine](http://en.wikipedia.org/wiki/Fine_(penalty)) is to be paid, this diminishes both the money available to pay the [wages](http://en.wikipedia.org/wiki/Wage) and [salaries](http://en.wikipedia.org/wiki/Salary) of all the remaining employees, and the [profits](http://en.wikipedia.org/wiki/Profit_(accounting)) available to pay all the existing [shareholders](http://en.wikipedia.org/wiki/Shareholder). Thus, the effect of the only available punishment is deflected from the wrongdoer personally and distributed among all the innocent parties who supply the [labour](http://en.wikipedia.org/wiki/Labour_(economics)) and the [capital](http://en.wikipedia.org/wiki/Capital_(economics)) that keep the corporation [solvent](http://en.wikipedia.org/wiki/Solvency).

Because, at a [public policy](http://en.wikipedia.org/wiki/Public_policy_(law)) level, the growth and prosperity of [society](http://en.wikipedia.org/wiki/Society) depends on the business [community](http://en.wikipedia.org/wiki/Community), [governments](http://en.wikipedia.org/wiki/Government) recognise limits on the extent to which each permitted form of [business entity](http://en.wikipedia.org/wiki/Business_entity) can be held liable (including [general](http://en.wikipedia.org/wiki/General_partnership) and [limited partnerships](http://en.wikipedia.org/wiki/Limited_partnership) which may also have separate legal personalities).

Stakeholder (corporate)

A corporate **stakeholder** is a party that can affect or be affected by the actions of the business as a whole. The stakeholder concept was first used in a 1963 internal memorandum at the [Stanford Research Institute](http://en.wikipedia.org/wiki/Stanford_Research_Institute). It defined stakeholders as "those groups without whose support the organization would cease to exist."[[1]](http://en.wikipedia.org/wiki/Stakeholder_(corporate)#cite_note-0) The theory was later developed and championed by [R. Edward Freeman](http://en.wikipedia.org/wiki/R._Edward_Freeman) in the 1980s. Since then it has gained wide acceptance in business practice and in theorizing relating to [strategic management](http://en.wikipedia.org/wiki/Strategic_management), [corporate governance](http://en.wikipedia.org/wiki/Corporate_governance), business purpose and [corporate social responsibility](http://en.wikipedia.org/wiki/Corporate_social_responsibility) (CSR).

The term has been broadened to include anyone who has an interest in a matter.

## Applications of the term

### Examples of a company's stakeholders

|  |  |
| --- | --- |
| **Stakeholders** | **Examples of interests** |
| **Government** | taxation, [VAT](http://en.wikipedia.org/wiki/VAT), [legislation](http://en.wikipedia.org/wiki/Legislation), low unemployment, truthful reporting. |
| **Employees** | rates of pay, [job security](http://en.wikipedia.org/wiki/Job_security), compensation, respect, truthful communication. |
| **Customers** | value, quality, customer care, ethical products. |
| **Suppliers** | providers of products and services used in the end product for the customer, equitable business opportunities. |
| **Creditors** | credit score, new contracts, liquidity. |
| **Community** | jobs, involvement, environmental protection, shares, truthful communication. |
| **Trade Unions** | quality, Staff protection, jobs. |
| **Owner(s)** | have interest of the success of his/her business. |

### Types of stakeholders

* People who will be affected by an endeavour and can influence it but who are not directly involved with doing the work.
* In the [private sector](http://en.wikipedia.org/wiki/Private_sector), people who are (or might be) affected by any action taken by an organization or group. Examples are parents, children, customers, owners, employees, associates, partners, contractors, and suppliers, people that are related or located nearby. Any group or individual who can affect or who is affected by achievement of a group's objectives.
* An individual or group with an interest in a group's or an organization's success in delivering intended results and in maintaining the viability of the group or the organization's product and/or service. Stakeholders influence programs, products, and services.
* Any organization, governmental entity, or individual that has a stake in or may be impacted by a given approach to environmental regulation, pollution prevention, energy conservation, etc.
* A participant in a community mobilization effort, representing a particular segment of society. School board members, environmental organizations, elected officials, chamber of commerce representatives, neighbourhood advisory council members, and religious leaders are all examples of local stakeholders.

**Market (or Primary) Stakeholders** - usually internal stakeholders, are those that engage in economic transactions with the business. (For example stockholders, customers, suppliers, creditors, and employees)

**Non-Market (or Secondary) Stakeholders** - usually external stakeholders, are those who - although they do not engage in direct economic exchange with the business - are affected by or can affect its actions. (For example the general public, communities, activist groups, business support groups, and the media)

### Company stakeholder mapping

A narrow mapping of a company's stakeholders might identify the following stakeholders:

* [Employees](http://en.wikipedia.org/wiki/Employees)
* [Communities](http://en.wikipedia.org/wiki/Community)
* [Shareholders](http://en.wikipedia.org/wiki/Shareholders)
* [Creditors](http://en.wikipedia.org/wiki/Creditors)
* [Investors](http://en.wikipedia.org/wiki/Investors)
* [Government](http://en.wikipedia.org/wiki/Government)
* [Customers](http://en.wikipedia.org/wiki/Customers)

Shareholder

A **shareholder** or **stockholder** is an [individual](http://en.wikipedia.org/wiki/Individual) or institution (including a [corporation](http://en.wikipedia.org/wiki/Corporation)) that legally owns any part of a [share](http://en.wikipedia.org/wiki/Share_(finance)) of [stock](http://en.wikipedia.org/wiki/Stock) in a public or private corporation. Shareholders own the stock, but not the corporation itself.

Stockholders are granted special privileges depending on the class of stock. These rights may include:

* The right to sell their shares,
* The right to vote on the directors nominated by the board,
* The right to nominate directors (although this is very difficult in practice because of minority protections) and propose [shareholder resolutions](http://en.wikipedia.org/wiki/Shareholder_resolutions),
* The right to dividends if they are declared,
* The right to purchase new shares issued by the company, and
* The right to what assets remains after a [liquidation](http://en.wikipedia.org/wiki/Liquidation).

Stockholders or shareholders are considered by some to be a [subset](http://en.wikipedia.org/wiki/Subset) of [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)), which may include anyone who has a direct or indirect interest in the [business entity](http://en.wikipedia.org/wiki/Business_entity). For example, labour, suppliers, customers, the community, etc., are typically considered stakeholders because they contribute value and/or are impacted by the corporation.

Stock

[](http://en.wikipedia.org/wiki/File:B&O_RR_common_stock.jpg)

[magnify-clip](http://en.wikipedia.org/wiki/File:B&O_RR_common_stock.jpg)

Stock certificate for ten shares of the [Baltimore and Ohio Railroad Company](http://en.wikipedia.org/wiki/Baltimore_and_Ohio_Railroad)

The **capital stock** (or simply **stock**) of a business entity represents the original capital paid into or invested in the business by its founders. It serves as a [security](http://en.wikipedia.org/wiki/Security_(finance)) for the [creditors](http://en.wikipedia.org/wiki/Creditor) of a business since it cannot be withdrawn to the detriment of the creditors. Stock is different from the property and the assets of a business which may fluctuate in quantity and value.[[1]](http://en.wikipedia.org/wiki/Stock#cite_note-0)

Shares

The stock of a business is divided into multiple [shares](http://en.wikipedia.org/wiki/Share_(finance)), the total of which must be stated at the time of business formation. Given the total amount of money invested in the business, a share has a certain declared face value, commonly known as the [par value](http://en.wikipedia.org/wiki/Par_value) of a share. The par value is the [*de minimis*](http://en.wikipedia.org/wiki/De_minimis) (minimum) amount of money that a business may issue and sell shares for in many jurisdictions and it is the value represented as capital in the [accounting](http://en.wikipedia.org/wiki/Accounting) of the business. In other jurisdictions, however, shares may not have an associated par value at all. Such stock is often called non-par stock. Shares represent a fraction of [ownership](http://en.wikipedia.org/wiki/Ownership) in a business. A [business](http://en.wikipedia.org/wiki/Business) may declare different types (*classes*) of shares, each having distinctive ownership rules, privileges, or share values.

Ownership of shares is documented by issuance of a [stock certificate](http://en.wikipedia.org/wiki/Stock_certificate). A stock certificate is a legal document that specifies the amount of shares owned by the [shareholder](http://en.wikipedia.org/wiki/Shareholder), and other specifics of the shares, such as the par value, if any, or the class of the shares.

Usage

Used in the plural, *stocks* is often used as a synonym for *shares*.[[2]](http://en.wikipedia.org/wiki/Stock#cite_note-1) Traditionalist demands for the plural *stocks* to be used only when referring to stocks of more than one company are rarely heard nowadays.

In the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), [Republic of Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland), [South Africa](http://en.wikipedia.org/wiki/South_Africa), and [Australia](http://en.wikipedia.org/wiki/Australia), *stock* can also refer to completely different [financial instruments](http://en.wikipedia.org/wiki/Financial_instruments) such as government [bonds](http://en.wikipedia.org/wiki/Bond_(finance)) or, less commonly, to all kinds of [marketable](http://en.wikipedia.org/wiki/Marketable) [securities](http://en.wikipedia.org/wiki/Securities).[[3]](http://en.wikipedia.org/wiki/Stock#cite_note-2)

Types of stock

Stock typically takes the form of shares of either [common stock](http://en.wikipedia.org/wiki/Common_stock) or [preferred stock](http://en.wikipedia.org/wiki/Preferred_stock). As a unit of ownership, common stock typically carries voting rights that can be exercised in corporate decisions. [Preferred stock](http://en.wikipedia.org/wiki/Preferred_stock) differs from common stock in that it typically does not carry voting rights but is legally entitled to receive a certain level of [dividend](http://en.wikipedia.org/wiki/Dividend) payments before any dividends can be issued to other shareholders.[[4]](http://en.wikipedia.org/wiki/Stock#cite_note-investor_guide-3)[[5]](http://en.wikipedia.org/wiki/Stock#cite_note-investments-4) Convertible preferred stock is preferred stock that includes an [option](http://en.wikipedia.org/wiki/Option_(finance)) for the holder to convert the preferred shares into a fixed number of common shares, usually anytime after a predetermined date. Shares of such stock are called "convertible preferred shares" (or "convertible preference shares" in the UK)

New [equity](http://en.wikipedia.org/wiki/Equity_(finance)) issues may have specific legal clauses attached that differentiate them from previous issues of the issuer. Some shares of common stock may be issued without the typical voting rights, for instance, or some shares may have special rights unique to them and issued only to certain parties. Often, new issues that have not been registered with a securities governing body may be [restricted](http://en.wikipedia.org/wiki/Restricted_stock) from resale for certain periods of time.

Preferred stock may be hybrid by having the qualities of bonds of fixed returns and common stock voting rights. They also have preference in the payment of dividends over common stock and also have been given preference at the time of liquidation over common stock. They have other features of accumulation in dividend.

Security (finance)

A **security** is generally a [fungible](http://en.wikipedia.org/wiki/Fungibility), negotiable [financial instrument](http://en.wikipedia.org/wiki/Financial_instrument) representing financial value.[[1]](http://en.wikipedia.org/wiki/Securities#cite_note-0) Securities are broadly categorized into:

* [debt](http://en.wikipedia.org/wiki/Debt) securities (such as [banknotes](http://en.wikipedia.org/wiki/Banknotes), [bonds](http://en.wikipedia.org/wiki/Bond_(finance)) and [debentures](http://en.wikipedia.org/wiki/Debenture)),
* [equity](http://en.wikipedia.org/wiki/Stock) securities, e.g., [common stocks](http://en.wikipedia.org/wiki/Common_stock); and,
* [derivative](http://en.wikipedia.org/wiki/Derivative_(finance)) contracts, such as [forwards](http://en.wikipedia.org/wiki/Forward_contract), [futures](http://en.wikipedia.org/wiki/Futures_contract), [options](http://en.wikipedia.org/wiki/Option_(finance)) and [swaps](http://en.wikipedia.org/wiki/Swap_(finance)).

The company or other entity issuing the security is called the [issuer](http://en.wikipedia.org/wiki/Issuer). A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

Securities may be represented by a certificate or, more typically, "non-certificated", that is in electronic or "book entry" only form. Certificates may be *bearer*, meaning they entitle the holder to rights under the security merely by holding the security, or *registered*, meaning they entitle the holder to rights only if he appears on a security register maintained by the issuer or an intermediary. They include shares of corporate [stock](http://en.wikipedia.org/wiki/Stock) or [mutual funds](http://en.wikipedia.org/wiki/Mutual_fund), [bonds](http://en.wikipedia.org/wiki/Bond_(finance)) issued by corporations or governmental agencies, [stock options](http://en.wikipedia.org/wiki/Stock_option) or other options, limited partnership units, and various other formal investment instruments that are negotiable and fungible.

Prospectus (finance)

In [finance](http://en.wikipedia.org/wiki/Finance), a **prospectus** is a document that describes a financial security for potential buyers. A prospectus commonly provides investors with material information about [mutual funds](http://en.wikipedia.org/wiki/Mutual_fund), [stocks](http://en.wikipedia.org/wiki/Stock), [bonds](http://en.wikipedia.org/wiki/Bond_(finance)) and other [investments](http://en.wikipedia.org/wiki/Investment), such as a description of the company's business, [financial statements](http://en.wikipedia.org/wiki/Financial_statements), biographies of officers and directors, detailed information about their compensation, any litigation that is taking place, a list of material properties and any other material information. In the context of an individual securities offering, such as an [initial public offering](http://en.wikipedia.org/wiki/Initial_public_offering), a prospectus is distributed by [underwriters](http://en.wikipedia.org/wiki/Underwriters) or [brokerages](http://en.wikipedia.org/wiki/Brokerages) to potential investors.

Initial public offering

An **initial public offering** (**IPO**) or **stock market launch** is the first sale of [stock](http://en.wikipedia.org/wiki/Stock) by a company to the public. It is a type of [public offering](http://en.wikipedia.org/wiki/Public_offering). As the result of an initial public offering, a [private company](http://en.wikipedia.org/wiki/Private_company) turns into a [public company](http://en.wikipedia.org/wiki/Public_company). The process is used by companies to raise expansion capital and become publicly traded enterprises. Many companies that undertake an IPO also request the assistance of an investment banking firm acting in the capacity of an [underwriter](http://en.wikipedia.org/wiki/Securities_underwriting) to help them correctly assess the value of their shares, that is, the share price.

Reasons for listing

When a company lists its securities on a [public exchange](http://en.wikipedia.org/wiki/Stock_exchange), the money paid by investors for the newly issued shares goes directly to the company (in contrast to a later trade of shares on the exchange, where the money passes between investors). An IPO, therefore, allows a company to tap a wide pool of investors to provide itself with capital for future growth, repayment of debt or working capital. A company selling common shares is never required to repay the capital to investors.

Once a company is listed, it is able to issue additional common shares via a secondary offering, thereby again providing itself with capital for expansion without incurring any debt. This ability to quickly raise large amounts of capital from the market is a key reason many companies seek to go public.

There are several benefits to being a public company, namely:

* Bolstering and diversifying equity base
* Enabling cheaper access to capital
* Exposure, prestige and public image
* Attracting and retaining better management and employees through liquid equity participation
* Facilitating acquisitions
* Creating multiple financing opportunities: equity, convertible debt, cheaper bank loans, etc.

Disadvantages of an IPO

There are several disadvantages to completing an initial public offering, namely:

* Significant legal, accounting and marketing costs
* Ongoing requirement to disclose financial and business information
* Meaningful time, effort and attention required of senior management
* Risk that required funding will not be raised
* Public dissemination of information which may be useful to competitors, suppliers and customers.

Capital surplus

**Capital surplus** is a term that frequently appears as a [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) item as a component of [shareholders' equity](http://en.wikipedia.org/wiki/Shareholders%27_equity). Capital surplus is used to account for that amount which a [firm](http://en.wikipedia.org/wiki/Company_(law)) raises in excess of the [par value](http://en.wikipedia.org/wiki/Par_value) (nominal value) of the shares ([common stock](http://en.wikipedia.org/wiki/Common_stock)).

Taken together, common stock (and sometimes preferred stock) issued and paid plus capital surplus represent the total amount actually paid by investors for shares when issued (assuming no subsequent adjustments or changes).

Shares for which there is no [par value](http://en.wikipedia.org/wiki/Par_value) will generally not have any form of capital surplus on the balance sheet; all funds from issuing shares will be credited to common stock issued.

Some other scenarios for triggering Capital Surplus include when the Government donates a piece of land to the company.

The Capital surplus/Share premium account (SPA) is not distributable; however, in restricted circumstances it can be reduced:

* to write off the expenses/commission relating to the issue of those shares;
* to make a bonus issue of fully paid-up shares.

It may also be used to account for any gains the firm may derive from selling [treasury stock](http://en.wikipedia.org/wiki/Treasury_stock), although this is less commonly seen.

**Capital Surplus** is also a term used by economists to denote capital inflows in excess of capital outflows on a country's [balance of payments](http://en.wikipedia.org/wiki/Balance_of_payments).

## Background

Many firms authorize shares with some nominal par value, often the smallest unit of currency commonly in use (such as one penny or $0.01), in many jurisdictions due to legal requirements. The firm may then sell these shares for a much higher price (as the par value is a largely archaic and fictional concept).

Any premium received over the par value is credited to capital surplus.

### Share premium account

According to Companies Act 1985 s.130 and companies ordinance 1984 (Nepal) s.84 [[1]](http://en.wikipedia.org/wiki/Capital_surplus#cite_note-0):

(1) If a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account called "the share premium account".

(2) The share premium account may be applied by the company in paying up unissued shares to be allotted to members as fully paid bonus shares, or in writing off- (a) the company's preliminary expenses; or (b) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company, or (c) in providing for the premium payable on redemption of debentures of the company.

(3) Subject to this, the provisions of this Act relating to the reduction of a company's share capital apply as if the share premium account were part of its paid up share capital.

A company's SPA is a part of creditors' buffer.

Derivative suit

A **shareholder derivative suit** is a [lawsuit](http://en.wikipedia.org/wiki/Lawsuit) brought by a [shareholder](http://en.wikipedia.org/wiki/Shareholder) on behalf of a [corporation](http://en.wikipedia.org/wiki/Corporation) against a third party. Often, the third party is an [insider](http://en.wikipedia.org/wiki/Insider) of the corporation, such as an executive officer or director. Shareholder derivative suits are unique because under traditional [corporate law](http://en.wikipedia.org/wiki/Corporation), management is responsible for bringing and defending the corporation against suit. Shareholder derivative suits permit a shareholder to initiate a suit when management has failed to do so. Becausederivative suits vary the traditional rolesof management and shareholders, many jurisdictions have implemented various procedural requirements to derivative suits.

Purpose and difficulties

Under traditional corporate business law, shareholders are the owners of a corporation. However, they are not empowered to control the day-to-day operations of the corporation. Instead, shareholders appoint directors, and the directors in turn appoint officers or executives to manage day-to-day operations.

Derivative suits permit a shareholder to bring an [action](http://en.wikipedia.org/wiki/Lawsuit) in the name of the corporation against parties allegedly causing harm to the corporation. If the directors, officers, or employees of the corporation are not willing to file an action, a shareholder may first petition them to proceed. If such petition fails, the shareholder may take it upon himself to bring an action on behalf of the corporation. Any proceeds of a successful action are awarded to the corporation and not to the individual shareholders that initiate the action.

Director (business)

**Director** refers to a rank in [management](http://en.wikipedia.org/wiki/Management). A director is a person who leads, or supervises a certain area of a company, a program, or a project.[[1]](http://en.wikipedia.org/wiki/Director_(business)#cite_note-businessdictionary.com_Director.2C_definitions-0) Usually [companies](http://en.wikipedia.org/wiki/Corporation), which use this [title](http://en.wikipedia.org/wiki/Corporate_title) commonly have large numbers of people with the title of director with different categories (e.g. director of [human resources](http://en.wikipedia.org/wiki/Human_resources)).[[2]](http://en.wikipedia.org/wiki/Director_(business)#cite_note-about.com_Human_Resources-1) Depending on factors like the size or structure of a company, the director usually reports directly to a [Vice President](http://en.wikipedia.org/wiki/Vice_President) or to the [CEO](http://en.wikipedia.org/wiki/Chief_executive_officer). When there is more than one director, they are sometimes ranked starting from the top as [Executive Director](http://en.wikipedia.org/wiki/Executive_Director), Senior Director, and then Director. In large organizations there might also be appointed Assistant Directors. Director commonly denotes the lowest level of executive in an organization, however many large companies are increasingly designating titles of Associate Directors.

Corporate governance

**Corporate governance** is "the system by which companies are directed and controlled" (Cadbury Committee, 1992).[[1]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-0) It involves regulatory and market mechanisms, and the roles and relationships between a company’s management, its board, its shareholders and other [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)), and the goals for which the corporation is governed.[[2]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-1)[[3]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-2) In contemporary business corporations, the main external stakeholder groups are shareholders, debtholders, trade [creditors](http://en.wikipedia.org/wiki/Creditor), suppliers, customers and communities affected by the corporation's activities[[4]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-3) . Internal stakeholders are the [board of directors](http://en.wikipedia.org/wiki/Board_of_directors), [executives](http://en.wikipedia.org/wiki/Executive_(management)), and other employees.

Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. Ways of mitigating or preventing these conflicts of interests include the **processes, customs, policies, laws, and institutions** which have impact on the way a **company** is **controlled**.[[5]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-4)[[6]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-5) An important theme of corporate governance is the nature and extent of [accountability](http://en.wikipedia.org/wiki/Accountability) of people in the **business**, and mechanisms that try to decrease the [principal–agent problem](http://en.wikipedia.org/wiki/Principal%E2%80%93agent_problem).[[7]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-6)[[8]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-7)

A related but separate thread of discussions focuses on the impact of a corporate governance system on [economic efficiency](http://en.wikipedia.org/wiki/Economic_efficiency), with a strong emphasis on shareholders' welfare; this aspect is particularly present in contemporary public debates and developments in regulatory policy[[9]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-8)(see [regulation](http://en.wikipedia.org/wiki/Regulation) and [policy regulation](http://en.wikipedia.org/wiki/Policy#Regulatory_policies)).[[10]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-9)

There has been renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability, since the high-profile collapses of a number of large corporations during 2001-2002, most of which involved accounting fraud [[11]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-10). [Corporate scandals](http://en.wikipedia.org/wiki/Corporate_scandals) of various forms have maintained public and political interest in the regulation of corporate governance. In the U.S., these include [Enron Corporation](http://en.wikipedia.org/wiki/Enron_Corporation) and [MCI Inc.](http://en.wikipedia.org/wiki/MCI_Inc.) (formerly WorldCom). Their demise is associated with the [U.S. federal government](http://en.wikipedia.org/wiki/U.S._federal_government) passing the [Sarbanes-Oxley Act](http://en.wikipedia.org/wiki/Sarbanes-Oxley_Act) in 2002, intending to restore public confidence in corporate governance. Comparable failures in Australia ([HIH](http://en.wikipedia.org/wiki/HIH), [One.Tel](http://en.wikipedia.org/wiki/One.Tel)) are associated with the eventual passage of the [CLERP 9](http://en.wikipedia.org/wiki/CLERP_9) reforms. Similar corporate failures in other countries stimulated increased regulatory interest (e.g., [Parmalat](http://en.wikipedia.org/wiki/Parmalat) in Italy).

Principles of corporate governance

Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The [Cadbury Report](http://en.wikipedia.org/wiki/Cadbury_Report) (UK, 1992), the Principles of Corporate Governance (OECD, 1998 and 2004), the [Sarbanes-Oxley Act](http://en.wikipedia.org/wiki/Sarbanes-Oxley_Act) of 2002 (US, 2002). The Cadbury and OECD reports present general principals around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

* **Rights and equitable treatment of shareholders**: [[12]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-11) [[13]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-12) [[14]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-13) Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
* **Interests of other stakeholders**:[[15]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-14) Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
* **Role and responsibilities of the board**: [[16]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-15) [[17]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-16) the board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment
* **Integrity and ethical behaviour**: [[18]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-17) [[19]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-18) Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
* **Disclosure and transparency**: [[20]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-19) [[21]](http://en.wikipedia.org/wiki/Corporate_governance#cite_note-20) Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Directors' duties

**Directors' duties** are a series of statutory, common law and equitable obligations owed primarily by members of the [board of directors](http://en.wikipedia.org/wiki/Board_of_directors) to the [corporation](http://en.wikipedia.org/wiki/Corporation) that employs them. It is a central part of [corporate law](http://en.wikipedia.org/wiki/Corporate_law) and [corporate governance](http://en.wikipedia.org/wiki/Corporate_governance). Directors' duties are analogous to duties owed by trustees to beneficiaries, and by agents to principals.

Among different jurisdictions, a number of similarities between the frameworks for directors' duties exist.

* directors owe duties to the corporation,[[1]](http://en.wikipedia.org/wiki/Directors'_duties#cite_note-0) and not to individual shareholders,[[2]](http://en.wikipedia.org/wiki/Directors'_duties#cite_note-1) employees or creditors outside exceptional circumstances
* directors' core duty is to remain loyal to the company, and avoid conflicts of interest
* directors are expected to display a high standard of care, skill or diligence
* directors are expected to act in [good faith](http://en.wikipedia.org/wiki/Good_faith) to promote the success of the corporation

Business judgment rule

The **business judgment rule** is a [United States](http://en.wikipedia.org/wiki/United_States) [case law](http://en.wikipedia.org/wiki/Case_law)-derived concept in [corporations law](http://en.wikipedia.org/wiki/Corporations_law) whereby the "directors of a corporation . . . are clothed with [the] presumption, which the law accords to them, of being [motivated] in their conduct by a bona fide regard for the interests of the corporation whose affairs the stockholders have committed to their charge"[[1]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-0).

To challenge the actions of a corporation's [board of directors](http://en.wikipedia.org/wiki/Board_of_directors), a plaintiff assumes "the burden of providing evidence that directors, in reaching their challenged decision, breached any one of the triads of their [fiduciary duty](http://en.wikipedia.org/wiki/Fiduciary_duty) — [good faith](http://en.wikipedia.org/wiki/Good_faith), [loyalty](http://en.wikipedia.org/wiki/Duty_of_Loyalty), or [due care](http://en.wikipedia.org/wiki/Duty_of_care_(business_associations))".[[2]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-1) Failing to do so, a plaintiff "is not entitled to any remedy unless the transaction constitutes waste . . . [that is,] the exchange was so one-sided that no business person of ordinary, sound judgment could conclude that the corporation has received adequate consideration".[[3]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-2)

Basis

Given that the directors are not insurers of corporate success, the business judgment rule specifies that the court will not review the business decisions of directors who performed their duties (1) in [good faith](http://en.wikipedia.org/wiki/Good_faith); (2) with the care that an ordinarily prudent person in a like position would exercise under similar circumstances; and (3) in a manner the directors reasonably believe to be in the best interests of the corporation.[[4]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-3) As part of their duty of care, directors have a duty not to waste corporate assets by overpaying for property or employment services. The business judgment rule is very difficult to overcome and courts will not interfere with directors unless it is clear that they are guilty of fraud or misappropriation of the corporate funds, etc.[[5]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-4)

In effect, the business judgment rule creates a strong [presumption](http://en.wikipedia.org/wiki/Presumption) in favour of the Board of Directors of a corporation, freeing its members from possible liability for decisions that result in harm to the corporation. The presumption is that "in making business decisions not involving direct self-interest or self-dealing, corporate directors act on an informed basis, in good faith, and in the honest belief that their actions are in the corporation's best interest."[[6]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-5) In short, it exists so that a Board will not suffer legal action simply from a bad decision. As the [Delaware Supreme Court](http://en.wikipedia.org/wiki/Delaware_Supreme_Court) has said, a court "will not substitute its own notions of what is or is not sound business judgment"[[7]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-Aronson-6) if "the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company."[[8]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-7)

Duty of care and duty of loyalty

Although a distinct common law concept from [duty of care](http://en.wikipedia.org/wiki/Duty_of_care), [duty of loyalty](http://en.wikipedia.org/wiki/Duty_of_loyalty) is often evaluated by courts in certain cases dealing with violations by the board. While the business judgment rule is historically linked particularly to the duty of care standard of conduct,[[9]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-8) shareholders who sue the directors often charge both the duty of care and duty of loyalty violations.

This forced the courts to evaluate duty of care (employing the business judgment rule standard of review) together with duty of loyalty violations that involve self-interest violations (as opposed to gross incompetence with duty of care). Violations of the duty of care are reviewed under a [gross negligence](http://en.wikipedia.org/wiki/Gross_negligence) standard, as opposed to simple [negligence](http://en.wikipedia.org/wiki/Negligence).

Consequently, over time, one of the points of review that has entered the business judgment rule was the prohibition against self-interest transactions. Conflicting interest transactions occur when a director, who has a conflicting interest with respect to a transaction, knows that she or a related person is (1) a party to the transaction; (2) has a beneficial financial interest in, or closely linked to, the transaction that the interest would reasonably be expected to influence the director's judgment if she were to vote on the transaction; or (3) is a director, general partner, agent, or employee of another entity with whom the corporation is transacting business and the transaction is of such importance to the corporation that it would in the normal course of business be brought before the board.[[10]](http://en.wikipedia.org/wiki/Business_judgment_rule#cite_note-9)

Standard of review

The following test was constructed in the opinion for *Grobow v. Perot*, 539 A.2d 180 (Del. 1988), as a guideline for satisfaction of the business judgment rule. Directors in a business should:

* act in good faith;
* act in the best interests of the corporation;
* act on an informed basis;
* not be wasteful;
* not involve self-interest (duty of loyalty concept plays a role here).

Offshore financial centre

[](http://en.wikipedia.org/wiki/File:Cane_Garden_Bay,_Tortola.JPG)

[magnify-clip](http://en.wikipedia.org/wiki/File:Cane_Garden_Bay,_Tortola.JPG)

Many leading offshore financial centres are located in small tropical Caribbean countries.

An **offshore financial centre** (**OFC**), though not precisely defined, is usually a small, low-tax [jurisdiction](http://en.wikipedia.org/wiki/Jurisdiction) specializing in providing corporate and commercial services to non-resident [offshore companies](http://en.wikipedia.org/wiki/Offshore_company), and for the [investment](http://en.wikipedia.org/wiki/Investment) of offshore funds. The term is a relatively modern [neologism](http://en.wikipedia.org/wiki/Neologism), first coined in the 1980s.[[1]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-0) Academics Rose & Spiegel,[[2]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-1) [Société Générale](http://en.wikipedia.org/wiki/Soci%C3%A9t%C3%A9_G%C3%A9n%C3%A9rale),[[3]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-2) and the [International Monetary Fund](http://en.wikipedia.org/wiki/International_Monetary_Fund) (IMF)[[4]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-3) consider offshore centres to include all economies with financial sectors disproportionate to their resident population:

An OFC is a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy.

—Ahmed Zoromé, IMF Working Paper/07/87[[5]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-4)

Definition

It has been remarked more than once that whether a financial centre is characterized as "offshore" is really a question of degree.[[6]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-5)[[7]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-6) Indeed, the IMF Working Paper cited above notes that its definition of an offshore centre would include the United Kingdom and the United States, which are ordinarily counted as "onshore" because of their large populations and inclusion in international organisations such as the G20 and OECD.[[8]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-7)

The more nebulous term “[tax haven](http://en.wikipedia.org/wiki/Tax_haven)” is often applied to offshore centres, leading to confusion between the two concepts. In *Tolley's International Initiatives Affecting Financial Havens* [[9]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-8) the author in the Glossary of Terms defines an “offshore financial centre” in forthright terms as “a politically correct term for what used to be called a tax haven.” However, he then qualifies this by adding, “The use of this term makes the important point that a jurisdiction may provide specific facilities for offshore financial centres without being in any general sense a tax haven.” A 1981 report by the IRS concludes, “a country is a tax haven if it looks like one and if it is considered to be one by those who care.”

With its connotations of [financial secrecy](http://en.wikipedia.org/wiki/Banking_secrecy) and [tax avoidance](http://en.wikipedia.org/wiki/Tax_avoidance), “tax haven” is not always an appropriate term for offshore financial centres, many of which have no statutory banking secrecy,[[10]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-9) and most of which have adopted tax information exchange protocols to allow foreign countries to investigate suspected tax evasion.[[11]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-10) [[12]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-11)

Views of offshore financial centres tend to be polarised. Proponents suggest that reputable offshore financial centres play a legitimate and integral role in international finance and trade, and that their zero-tax structure allows financial planning and risk management and makes possible some of the cross-border vehicles necessary for global trade, including financing for aircraft and shipping or reinsurance of medical facilities.[[13]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-12) Proponents point to the tacit support of offshore centres by the governments of the United States (which promotes offshore financial centres by the continuing use of the [Foreign Sales Corporation](http://en.wikipedia.org/wiki/Foreign_Sales_Corporation) (FSC)) and United Kingdom (which actively promotes offshore finance in Caribbean dependent territories to help them diversify their economies and to facilitate the British [Eurobond](http://en.wikipedia.org/wiki/Eurobond) market).

Scrutiny

Offshore finance has been the subject of increased attention since 2000 and even more so since the April 2009 G20 meeting, when heads of state resolved to “take action” against non-cooperative jurisdictions.[[14]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-13) Initiatives spearheaded by the [Organisation for Economic Cooperation and Development](http://en.wikipedia.org/wiki/Organisation_for_Economic_Cooperation_and_Development) (OECD), the [Financial Action Task Force on Money Laundering](http://en.wikipedia.org/wiki/Financial_Action_Task_Force_on_Money_Laundering) (FATF) and the [International Monetary Fund](http://en.wikipedia.org/wiki/International_Monetary_Fund) have had a significant effect on the offshore finance industry.[[15]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-FATF-14) Most of the principal offshore centres considerably strengthened their internal regulations relating to money laundering and other key regulated activities. Indeed, Jersey is now rated as the most compliant jurisdiction internationally, complying with 44 of the "40+9" recommendations.[[16]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-15)

Taxation

Although most offshore financial centres originally rose to prominence by facilitating structures which helped to minimise exposure to [tax](http://en.wikipedia.org/wiki/Tax), [tax avoidance](http://en.wikipedia.org/wiki/Tax_avoidance) has played a decreasing role in the success of offshore financial centres in recent years. Most professional practitioners in offshore jurisdictions refer to themselves as "tax neutral" since, whatever tax burdens the proposed transaction or structure will have in its primary operating market, having the structure based in an offshore jurisdiction will not create any additional tax burdens.

A number of pressure groups suggest that offshore financial centres engage in "unfair [tax competition](http://en.wikipedia.org/wiki/Tax_competition)" by having no, or very low tax burdens, and have argued that such jurisdictions should be forced to tax both economic activity and their own citizens at a higher level. Another criticism levelled against offshore financial centres is that whilst sophisticated jurisdictions usually have developed tax codes which prevent tax revenues leaking from the use of offshore jurisdictions, less developed nations, who can least afford to lose tax revenue, are unable to keep pace with the rapid development of the use of offshore financial structures.[[17]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-16) [[18]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-gfintegrity1-17)

Regulation

Offshore centres benefit from a low burden of regulation. An extremely high proportion of [hedge funds](http://en.wikipedia.org/wiki/Hedge_funds) (which characteristically employ high risk investment strategies) who register offshore are presumed to be driven by lighter regulatory requirements rather than perceived tax benefits.[[19]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-18) Many [capital markets](http://en.wikipedia.org/wiki/Capital_markets) bond issues are also structured through a [special purpose vehicle](http://en.wikipedia.org/wiki/Special_purpose_vehicle) incorporated in an offshore financial centre specifically to minimise the amount of regulatory red-tape associated with the issue.

Offshore centres have historically been seen as venues for laundering the proceeds of illicit activity.[[18]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-gfintegrity1-17) However, following a move towards transparency during the 2000s and the introduction of strict AML regulations, some [[15]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-FATF-14) now argue that offshore are in many cases better regulated than many onshore financial centres.[[20]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-19)[[21]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-20) For example, in most offshore jurisdictions, a person needs a licence to act as a [trustee](http://en.wikipedia.org/wiki/Trustee), whereas (for example) in the United Kingdom and the United States, there are no restrictions or regulations as to who may serve in a fiduciary capacity.[[22]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-21) The leading offshore financial centres are more compliant with the [Financial Action Task Force on Money Laundering](http://en.wikipedia.org/wiki/Financial_Action_Task_Force_on_Money_Laundering)'s '40+9' recommendations than many OECD countries.[[23]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-22)

Some commentators have expressed concern that the differing levels of sophistication between offshore financial centres will lead to regulatory [arbitrage](http://en.wikipedia.org/wiki/Arbitrage),[[24]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-23) and fuel a race to the bottom, although evidence from the market seems to indicate the investors prefer to utilise better regulated offshore jurisdictions rather than more poorly regulated ones.[[25]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-24) A study by Australian academic found that shell companies are more easily set up in many OECD member countries than in offshore jurisdictions.[[26]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-25) A report by [Global Witness](http://en.wikipedia.org/wiki/Global_Witness), *Undue Diligence*, found that kleptocrats used French banks rather than offshore accounts as destinations for plundered funds.[[27]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-26)

Confidentiality

Critics of offshore jurisdictions point to excessive secrecy in those jurisdictions, particularly in relation to the beneficial ownership of offshore companies, and in relation to offshore bank accounts. However, banks in most jurisdictions will preserve the confidentiality of their customers, and all of the major offshore jurisdictions have appropriate procedures for law enforcement agencies to obtain information regarding suspicious bank accounts, as noted in FATF ratings.[[28]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-27) Most jurisdictions also have remedies which private citizens can avail themselves of, such as [Anton Piller orders](http://en.wikipedia.org/wiki/Anton_Piller_order), if they can satisfy the court in that jurisdiction that a bank account has been used as part of a legal wrong.

Similarly, although most offshore jurisdictions only make a limited amount of information with respect to companies publicly available, this is also true of most states in the U.S.A., where it is uncommon for share registers or company accounts to be available for public inspection. In relation to trusts and unlimited liability partnerships, there are very few jurisdictions in the world that require these to be registered, let alone publicly file details of the people involved with those structures.

Statutory banking secrecy is a feature of several financial centres, notably Switzerland and Singapore.[[29]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-28) However, many offshore financial centres have no such statutory right. Jurisdictions including Aruba, the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Jersey, Guernsey, the Isle of Man and the Netherlands Antilles have signed tax information exchange agreements based on the OECD model, which commits them to sharing financial information about foreign residents suspected of evading home-country tax.[[30]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-29)

## Effects on international trade

Offshore centres act as conduits for global trade and ease international capital flows. International [joint ventures](http://en.wikipedia.org/wiki/Joint_ventures) are often structured as companies in an offshore jurisdiction when neither party in the venture party wishes to form the company in the other party's home jurisdiction for fear of unwanted tax consequences. Although most offshore financial centres still charge little or no tax, the increasing sophistication of onshore tax codes has meant that there is often little tax benefit relative to the cost of moving a transaction structure offshore.[[31]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-30)

Recently, several studies have examined the impact of offshore financial centres on the world economy more broadly, finding the high degree of competition between banks in such jurisdictions to increase liquidity in nearby onshore markets. Proximity to small offshore centres has been found to reduce credit spreads and interest rates, [[32]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-31) while a paper by James Hines concluded, "by every measure credit is more freely available in countries which have close relationships with offshore centres."[[33]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-32)

Low-tax financial centres are becoming increasingly important as conduits for investment into emerging markets. For instance, 44% of [foreign direct investment](http://en.wikipedia.org/wiki/Foreign_direct_investment) (FDI) into India came through [Mauritius](http://en.wikipedia.org/wiki/Mauritius) last year,[[34]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-33) while over two thirds of FDI into Brazil came through offshore centres.[[35]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-34) Blanco & Rogers find a positive correlation between proximity to an offshore centre and investment for [least developed countries](http://en.wikipedia.org/wiki/Least_developed_countries) (LDCs); a $1 increase in FDI to an offshore centre translates to an average increase of $0.07 in FDI for nearby developing countries.[[36]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-35)

## Offshore financial structures

The bedrock of most offshore financial centre is the formation of offshore structures – typically:

* [offshore company](http://en.wikipedia.org/wiki/Offshore_company)
* offshore [partnership](http://en.wikipedia.org/wiki/Partnership)
* [offshore trust](http://en.wikipedia.org/wiki/Offshore_trust)
* [private foundation](http://en.wikipedia.org/wiki/Private_foundation)[[37]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-36)

Offshore structures are formed for a variety of reasons.

**Legitimate** reasons include:

* *Asset holding vehicles*. Many corporate conglomerates employ a large number of holding companies, and often high-risk assets are parked in separate companies to prevent legal risk accruing to the main group (i.e. where the assets relate to [asbestos](http://en.wikipedia.org/wiki/Asbestos), see the English case of [Adams v Cape Industries](http://en.wikipedia.org/wiki/Adams_v_Cape_Industries)). Similarly, it is quite common for fleets of ships to be separately owned by separate offshore companies to try to circumvent laws relating to group liability under certain environmental legislation.
* *Asset protection*. Wealthy individuals who live in politically unstable countries utilise offshore companies to hold family wealth to avoid potential [expropriation](http://en.wikipedia.org/wiki/Nationalization) or [exchange control](http://en.wikipedia.org/wiki/Exchange_control) restrictions in the country in which they live. These structures work best when the wealth is foreign-earned, or has been expatriated over a significant period of time (aggregating annual exchange control allowances).[[38]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-37)
* *Avoidance of forced heirship provisions*. Many countries from France to [Saudi Arabia](http://en.wikipedia.org/wiki/Saudi_Arabia) (and the U.S. State of [Louisiana](http://en.wikipedia.org/wiki/Louisiana)) continue to employ [forced heirship](http://en.wikipedia.org/wiki/Forced_heirship) provisions in their succession law, limiting the testator's freedom to distribute assets upon death. By placing assets into an offshore company, and then having probate for the shares in the offshore determined by the laws of the offshore jurisdiction (usually in accordance with a specific [will](http://en.wikipedia.org/wiki/Will_(law)) or [codicil](http://en.wikipedia.org/wiki/Codicil_(will)) sworn for that purpose), the testator can sometimes avoid such strictures.
* *Collective Investment Vehicles*. [Mutual funds](http://en.wikipedia.org/wiki/Mutual_funds), [Hedge funds](http://en.wikipedia.org/wiki/Hedge_funds), [Unit Trusts](http://en.wikipedia.org/wiki/Unit_Trusts) and [SICAVs](http://en.wikipedia.org/wiki/SICAV) are formed offshore to facilitate international distribution. By being domiciled in a low tax jurisdiction investors only have to consider the tax implications of their own domicile or residency.
* *Derivatives trading*. Wealthy individuals often form offshore vehicles to engage in risky investments, such as [derivatives](http://en.wikipedia.org/wiki/Derivative_(finance)) trading, which are extremely difficult to engage in directly due to cumbersome financial markets regulation.
* *Exchange control trading vehicles*. In countries where there is either [exchange control](http://en.wikipedia.org/wiki/Exchange_control) or is perceived to be increased political risk with the repatriation of funds, major exporters often form trading vehicles in offshore companies so that the sales from exports can be "parked" in the offshore vehicle until needed for further investment. Trading vehicles of this nature have been criticised in a number of shareholder lawsuits which allege that by manipulating the ownership of the trading vehicle, majority shareholders can illegally avoid paying minority shareholders their fair share of trading profits.
* *Joint venture vehicles*. Offshore jurisdictions are frequently used to set up [joint venture](http://en.wikipedia.org/wiki/Joint_venture) companies, either as a compromise neutral jurisdiction (see for example, [TNK-BP](http://en.wikipedia.org/wiki/TNK-BP)) and/or because the jurisdiction where the joint venture has its commercial centre has insufficiently sophisticated corporate and commercial laws.
* *Stock market listing vehicles*. Successful companies who are unable to obtain a [stock market](http://en.wikipedia.org/wiki/Stock_market) listing because of the underdevelopment of the [corporate law](http://en.wikipedia.org/wiki/Corporate_law) in their home country often transfer shares into an offshore vehicle, and list the offshore vehicle. Offshore vehicles are listed on the [NASDAQ](http://en.wikipedia.org/wiki/NASDAQ), [Alternative Investment Market](http://en.wikipedia.org/wiki/Alternative_Investment_Market), the [Hong Kong Stock Exchange](http://en.wikipedia.org/wiki/Hong_Kong_Stock_Exchange) and the [Singapore Stock Exchange](http://en.wikipedia.org/wiki/Singapore_Exchange). It is estimated that over 90% of the companies listed on Hong Kong's [Hang Seng](http://en.wikipedia.org/wiki/Hang_Seng) are incorporated in offshore jurisdictions. 35% of companies listed on AIM during 2006 were from OFCs.[[39]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-38)
* *Trade finance vehicles*. Large corporate groups often form offshore companies, sometimes under an [orphan structure](http://en.wikipedia.org/wiki/Orphan_structure) to enable them to obtain financing (either from [bond issues](http://en.wikipedia.org/wiki/Bond_(finance)) or by way of a [syndicated loan](http://en.wikipedia.org/wiki/Syndicated_loan)) and to treat the financing as "[off-balance-sheet](http://en.wikipedia.org/wiki/Off-balance-sheet)" under applicable accounting procedures. In relation to bond issues, offshore special purpose vehicles are often used in relation to [asset-backed securities](http://en.wikipedia.org/wiki/Asset-backed_security) transactions (particularly [securitisations](http://en.wikipedia.org/wiki/Securitization)).

**Illegitimate** purposes include:

* *Creditor avoidance*. Highly indebted persons may seek to escape the effect of bankruptcy by transferring cash and assets into an anonymous offshore company.[[40]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-39)
* *Market manipulation*. The [Enron](http://en.wikipedia.org/wiki/Enron_scandal) and [Parmalat](http://en.wikipedia.org/wiki/Parmalat#Financial_fraud_.282002.E2.80.932005.29) scandals demonstrated how companies could form offshore vehicles to manipulate financial results.
* *Tax evasion*. Although numbers are difficult to ascertain, it is widely believed that individuals in wealthy nations unlawfully [evade tax](http://en.wikipedia.org/wiki/Tax_evasion) through not declaring gains made by offshore vehicles that they own. Multinationals including [GlaxoSmithKline](http://en.wikipedia.org/wiki/GlaxoSmithKline) and [Sony](http://en.wikipedia.org/wiki/Sony) have been accused of [transferring profits](http://en.wikipedia.org/wiki/Transfer_pricing) from the higher-tax jurisdictions in which they are made to zero-tax offshore centres.[[41]](http://en.wikipedia.org/wiki/Offshore_Financial_Centre#cite_note-40)

Tax haven

A **tax haven** is a state or a country or territory where certain [taxes](http://en.wikipedia.org/wiki/Tax) are levied at a low rate or not at all while offering [due process](http://en.wikipedia.org/wiki/Due_process), [good governance](http://en.wikipedia.org/wiki/Good_governance) and a low [corruption](http://en.wikipedia.org/wiki/Political_corruption) rate.[[1]](http://en.wikipedia.org/wiki/Tax_haven#cite_note-ssrn-0)

Individuals and/or corporate entities can find it attractive to move themselves to areas with reduced or nil taxation levels. This creates a situation of [tax competition](http://en.wikipedia.org/wiki/Tax_competition) among governments. Different [jurisdictions](http://en.wikipedia.org/wiki/Jurisdiction) tend to be havens for different types of taxes, and for different categories of people and/or companies.

States that are [sovereign](http://en.wikipedia.org/wiki/Sovereignty) or self-governing under [international law](http://en.wikipedia.org/wiki/International_law) have theoretically unlimited powers to enact tax laws affecting their territories, unless limited by previous international treaties.

There are several definitions of tax havens. [*The Economist*](http://en.wikipedia.org/wiki/The_Economist) has tentatively adopted the description by Geoffrey Colin Powell (former economic adviser to [Jersey](http://en.wikipedia.org/wiki/Jersey)): "What ... identifies an area as a tax haven is the existence of a composite tax structure established deliberately to take advantage of, and exploit, a worldwide demand for opportunities to engage in [tax avoidance](http://en.wikipedia.org/wiki/Tax_avoidance)." *The Economist* points out that this definition would still exclude a number of jurisdictions traditionally thought of as tax havens.[[2]](http://en.wikipedia.org/wiki/Tax_haven#cite_note-1) Similarly, others have suggested that any country which modifies its tax laws to attract foreign capital could be considered a tax haven.[[3]](http://en.wikipedia.org/wiki/Tax_haven#cite_note-2) According to other definitions, [[4]](http://en.wikipedia.org/wiki/Tax_haven#cite_note-3) the central feature of a haven is that its laws and other measures can be used to evade or avoid the tax laws or regulations of other jurisdictions.

In its December 2008 report on the use of tax havens by American corporations, [[5]](http://en.wikipedia.org/wiki/Tax_haven#cite_note-4) the U.S. [Government Accountability Office](http://en.wikipedia.org/wiki/Government_Accountability_Office) was unable to find a satisfactory definition of a tax haven but regarded the following characteristics as indicative of a tax haven:

1. nil or nominal taxes;
2. lack of effective exchange of tax information with foreign tax authorities;
3. lack of transparency in the operation of legislative, legal or administrative provisions;
4. no requirement for a substantive local presence; and
5. self-promotion as an [offshore financial centre](http://en.wikipedia.org/wiki/Offshore_financial_centre).

Examples

The U.S. National Bureau of Economic Research has suggested that roughly 15% of countries in the world are tax havens, that these countries tend to be small and affluent, and that better governed and regulated countries are more likely to become tax havens, and are more likely to be successful if they become tax havens.[[23]](http://en.wikipedia.org/wiki/Tax_haven#cite_note-22)

No two commentators can generally agree on a "list of tax havens", but the following countries are commonly cited as falling within the "classic" perception of a sovereign tax haven.

* [Andorra](http://en.wikipedia.org/wiki/Andorra)
* The [Bahamas](http://en.wikipedia.org/wiki/Bahamas)
* [Cyprus](http://en.wikipedia.org/wiki/Cyprus)
* [Liechtenstein](http://en.wikipedia.org/wiki/Liechtenstein)
* [Luxembourg](http://en.wikipedia.org/wiki/Luxembourg)
* [Monaco](http://en.wikipedia.org/wiki/Monaco)
* [Panama](http://en.wikipedia.org/wiki/Panama)
* [San Marino](http://en.wikipedia.org/wiki/San_Marino)
* [Seychelles](http://en.wikipedia.org/wiki/Seychelles)
* [Switzerland](http://en.wikipedia.org/wiki/Switzerland)

Non-sovereign jurisdictions commonly labelled as tax havens include:

* [Bermuda](http://en.wikipedia.org/wiki/Bermuda) ([United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom))
* [British Virgin Islands](http://en.wikipedia.org/wiki/British_Virgin_Islands) ([United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom))
* [Campione d'Italia](http://en.wikipedia.org/wiki/Campione_d%27Italia) an Italian [exclave](http://en.wikipedia.org/wiki/Exclave) ([Italy](http://en.wikipedia.org/wiki/Italy))
* [Cayman Islands](http://en.wikipedia.org/wiki/Cayman_Islands) ([United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom))
* The [Channel Islands](http://en.wikipedia.org/wiki/Channel_Islands) of [Jersey](http://en.wikipedia.org/wiki/Jersey) and [Guernsey](http://en.wikipedia.org/wiki/Guernsey) ([United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom))
* [Delaware](http://en.wikipedia.org/wiki/Delaware) ([United States](http://en.wikipedia.org/wiki/United_States))
* The [Isle of Man](http://en.wikipedia.org/wiki/Isle_of_Man) ([United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom))
* [Jebel Ali Free Zone](http://en.wikipedia.org/wiki/Jebel_Ali_Free_Zone) in the [United Arab Emirates](http://en.wikipedia.org/wiki/United_Arab_Emirates)
* [Labuan](http://en.wikipedia.org/wiki/Labuan), a [Malaysian](http://en.wikipedia.org/wiki/Malaysia) island off [Borneo](http://en.wikipedia.org/wiki/Borneo)
* [Netherlands Antilles](http://en.wikipedia.org/wiki/Netherlands_Antilles) ([Netherlands](http://en.wikipedia.org/wiki/Netherlands))
* [Nevada](http://en.wikipedia.org/wiki/Nevada) ([United States](http://en.wikipedia.org/wiki/United_States))
* [Turks and Caicos Islands](http://en.wikipedia.org/wiki/Turks_and_Caicos_Islands) ([United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom))
* [United States Virgin Islands](http://en.wikipedia.org/wiki/United_States_Virgin_Islands) ([United States](http://en.wikipedia.org/wiki/United_States))
* [Wyoming](http://en.wikipedia.org/wiki/Wyoming) ([United States](http://en.wikipedia.org/wiki/United_States))

Some tax havens including some of the ones listed above do charge income tax as well as other taxes such as [capital gains](http://en.wikipedia.org/wiki/Capital_gains), inheritance tax, and so forth. Criteria distinguishing a taxpayer from a non-taxpayer can include citizenship and residency and source of income.

# X Import and Export

International trade

[](http://en.wikipedia.org/wiki/File:Silkroutes.jpg)

[magnify-clip](http://en.wikipedia.org/wiki/File:Silkroutes.jpg)

Ancient [Silk Road](http://en.wikipedia.org/wiki/Silk_road) [trade routes](http://en.wikipedia.org/wiki/Trade_routes) across [Eurasia](http://en.wikipedia.org/wiki/Eurasia).

**International trade** is the exchange of [capital](http://en.wikipedia.org/wiki/Capital_(economics)), [goods](http://en.wikipedia.org/wiki/Good_(economics)), and [services](http://en.wikipedia.org/wiki/Service_(economics)) across [international borders](http://en.wikipedia.org/wiki/International_borders) or territories.[[1]](http://en.wikipedia.org/wiki/International_trade#cite_note-0) In most countries, such trade represents a significant share of [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) (GDP). While international [trade](http://en.wikipedia.org/wiki/Trade) has been present throughout much of history (see [Silk Road](http://en.wikipedia.org/wiki/Silk_Road), [Amber Road](http://en.wikipedia.org/wiki/Amber_Road)), its economic, social, and political importance has been on the rise in recent centuries.

[Industrialization](http://en.wikipedia.org/wiki/Industrialization), advanced [transportation](http://en.wikipedia.org/wiki/Transport), [globalization](http://en.wikipedia.org/wiki/Globalization), [multinational corporations](http://en.wikipedia.org/wiki/Multinational_corporation), and [outsourcing](http://en.wikipedia.org/wiki/Outsourcing) are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of [globalization](http://en.wikipedia.org/wiki/Globalization). Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is, in principle, not different from [domestic trade](http://en.wikipedia.org/wiki/Domestic_trade) as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as [tariffs](http://en.wikipedia.org/wiki/Tariff), time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) such as capital and [labour](http://en.wikipedia.org/wiki/Labor_economics) are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labour or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production.

Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labour-intensive goods by the United States from China. Instead of importing Chinese labour, the United States imports goods that were produced with Chinese labour. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.[[2]](http://en.wikipedia.org/wiki/International_trade#cite_note-twsA36-1)

International trade is also a branch of [economics](http://en.wikipedia.org/wiki/Economics), which, together with [international finance](http://en.wikipedia.org/wiki/International_finance), forms the larger branch of [international economics](http://en.wikipedia.org/wiki/International_economics).

Import

The term **import** is derived from the conceptual meaning as to bring in the goods and services into the port of a country. The buyer of such goods and services is referred to an "importer" who is based in the country of import whereas the overseas based seller is referred to as an "exporter". [[1]](http://en.wikipedia.org/wiki/Import#cite_note-0) Thus an import is any [good](http://en.wikipedia.org/wiki/Good_(economics_and_accounting)) (e.g. a [commodity](http://en.wikipedia.org/wiki/Commodity)) or [service](http://en.wikipedia.org/wiki/Service_(economics)) brought in from one country to another country in a legitimate fashion, typically for use in [trade](http://en.wikipedia.org/wiki/Trade). It is a good that is brought in from another country for sale.[[2]](http://en.wikipedia.org/wiki/Import#cite_note-1) Import goods or services are provided to domestic [consumers](http://en.wikipedia.org/wiki/Consumer) by foreign [producers](http://en.wikipedia.org/wiki/Production,_costs,_and_pricing). An import in the receiving country is an [export](http://en.wikipedia.org/wiki/Export) to the sending country.

Imports, along with [exports](http://en.wikipedia.org/wiki/Exports), form the basis of [international trade](http://en.wikipedia.org/wiki/International_trade). Import of goods normally requires involvement of the [customs](http://en.wikipedia.org/wiki/Customs) authorities in both the country of import and the country of [export](http://en.wikipedia.org/wiki/Export) and are often subject to [import quotas](http://en.wikipedia.org/wiki/Import_quota), [tariffs](http://en.wikipedia.org/wiki/Tariff) and [trade agreements](http://en.wikipedia.org/wiki/Trade_agreements). When the "imports" are the set of goods and services imported, "Imports" also means the [economic value](http://en.wikipedia.org/wiki/Value_(economics)) of all goods and services that are imported. The [macroeconomic](http://en.wikipedia.org/wiki/Macroeconomics) variable I usually stands for the value of these imports over a given period of time, usually one year.

Definition

"Imports" consist of transactions in goods and services (sales, barter, gifts or grants) from non-residents [residents](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Resident_institutional_unit) to residents.[[3]](http://en.wikipedia.org/wiki/Import#cite_note-2) The exact definition of imports in [national accounts](http://en.wikipedia.org/wiki/National_accounts) includes and excludes specific "borderline" cases. [[4]](http://en.wikipedia.org/wiki/Import#cite_note-3) A general delimitation of imports in national accounts is given below:

* An import of a good occurs when there is a change of ownership from a non-resident to a resident; this does not necessarily imply that the good in question physically crosses the frontier. However, in specific cases national accounts impute changes of ownership even though in legal terms no change of ownership takes place (e.g. *cross border financial leasing*, *cross border deliveries between affiliates of the same enterprise*, *goods crossing the border for significant processing to order or repair*). Also smuggled goods must be included in the import measurement.
* Imports of services consist of all services rendered by non-residents to residents. In national accounts any direct purchases by residents outside the [economic territory](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Economic_territory) of a country are recorded as imports of services; therefore all expenditure by tourists in the economic territory of another country are considered as part of the imports of services. Also international flows of illegal services must be included.

Basic trade statistics often differ in terms of definition and coverage from the requirements in the national accounts:

* Data on international trade in goods are mostly obtained through declarations to custom services. If a country applies the general trade system, all goods entering the country are recorded as imports. If the special trade system (e.g. extra-EU trade statistics) is applied goods which are received into customs warehouses are not recorded in external trade statistics unless they subsequently go into free circulation of the importing country.
* A special case is the intra-EU trade statistics. Since goods move freely between the member states of the EU without customs controls, statistics on trade in goods between the member states must be obtained through surveys. To reduce the statistical burden on the respondents small scale traders are excluded from the reporting obligation.
* Statistical recording of trade in services is based on declarations by banks to their central banks or by surveys of the main operators. In a globalized economy where services can be rendered via electronic means (*e.g. internet*) the related international flows of services are difficult to identify.
* Basic statistics on international trade normally do not record smuggled goods or international flows of illegal services. A small fraction of the smuggled goods and illegal services may nevertheless be included in official trade statistics through dummy shipments or dummy declarations that serve to conceal the illegal nature of the activities.

Export

This term **export** is derived from the conceptual meaning as to ship the goods and services out of the port of a country. The seller of such goods and services is referred to as an "exporter" who is based in the country of export whereas the overseas based buyer is referred to as an "importer". In International Trade, "exports" refers to selling goods and services produced in the home country to other markets.[[1]](http://en.wikipedia.org/wiki/Exports#cite_note-0)

Any [good](http://en.wikipedia.org/wiki/Good_(economics_and_accounting)) or [commodity](http://en.wikipedia.org/wiki/Commodity), [transported](http://en.wikipedia.org/wiki/Transport) from one country to another country in a legitimate fashion, typically for use in [trade](http://en.wikipedia.org/wiki/Trade). Export goods or services are provided to foreign [consumers](http://en.wikipedia.org/wiki/Consumer) by domestic [producers](http://en.wikipedia.org/wiki/Production_theory_basics).[[2]](http://en.wikipedia.org/wiki/Exports#cite_note-1)

Export of commercial quantities of goods normally requires involvement of the customs authorities in both the country of export and the country of import. An export's counterpart is an [import](http://en.wikipedia.org/wiki/Import).

Definition

"Foreign demand for goods produced by home country"

In [national accounts "exports"](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Exports_-_NA) consist of transactions in goods and services (sales, barter, gifts or grants) from [residents](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Resident_institutional_unit) to non-residents.[[3]](http://en.wikipedia.org/wiki/Exports#cite_note-2) The exact definition of exports includes and excludes specific "borderline" cases.[[4]](http://en.wikipedia.org/wiki/Exports#cite_note-3) A general delimitation of exports in national accounts is given below:

* An export of a good occurs when there is a change of ownership from a resident to a non-resident; this does not necessarily imply that the good in question physically crosses the frontier. However, in specific cases national accounts impute changes of ownership even though in legal terms no change of ownership takes place (e.g. *cross border financial leasing*, *cross border deliveries between affiliates of the same enterprise*, *goods crossing the border for significant processing to order or repair*). Also smuggled goods must be included in the export measurement.
* Export of services consists of all services rendered by residents to non-residents. In national accounts any direct purchases by non-residents in the [economic territory](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Economic_territory) of a country are recorded as exports of services; therefore all expenditure by foreign tourists in the economic territory of a country is considered as part of the exports of services of that country. Also international flows of illegal services must be included.

National accountants often need to make adjustments to the basic trade data in order to comply with national accounts concepts; the concepts for basic trade statistics often differ in terms of definition and coverage from the requirements in the national accounts:

* Data on international trade in goods are mostly obtained through declarations to custom services. If a country applies the general trade system, all goods entering or leaving the country are recorded. If the special trade system (e.g. extra-EU trade statistics) is applied goods which are received into customs warehouses are not recorded in external trade statistics unless they subsequently go into free circulation in the country of receipt.
* A special case is the intra-EU trade statistics. Since goods move freely between the member states of the EU without customs controls, statistics on trade in goods between the member states must be obtained through surveys. To reduce the statistical burden on the respondents small scale traders are excluded from the reporting obligation.
* Statistical recording of trade in services is based on declarations by banks to their central banks or by surveys of the main operators. In a globalized economy where services can be rendered via electronic means (*e.g. internet*) the related international flows of services are difficult to identify.
* Basic statistics on international trade normally do not record smuggled goods or international flows of illegal services. A small fraction of the smuggled goods and illegal services may nevertheless be included in official trade statistics through dummy shipments or dummy declarations that serve to conceal the illegal nature of the activities.

Customs

**Customs** is an [authority](http://en.wikipedia.org/wiki/Authority) or [agency](http://en.wikipedia.org/wiki/Government_agency) in a country responsible for collecting and safeguarding [customs duties](http://en.wikipedia.org/wiki/Duty_(economics)) and for controlling the flow of goods including animals, transports, personal effects and [hazardous](http://en.wikipedia.org/wiki/Hazard) items in and out of a country. Depending on local legislation and regulations, the [import](http://en.wikipedia.org/wiki/International_trade) or [export](http://en.wikipedia.org/wiki/Export) of some goods may be restricted or forbidden, and the customs agency enforces these rules.[[1]](http://en.wikipedia.org/wiki/Customs#cite_note-Chowdhury_1992-0) The customs authority may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international [arrest warrants](http://en.wikipedia.org/wiki/Arrest_warrant), and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and international laws.

A customs [duty](http://en.wikipedia.org/wiki/Duty_(economics)) is a [tariff](http://en.wikipedia.org/wiki/Tariff) or [tax](http://en.wikipedia.org/wiki/Tax) on the importation (usually) or exportation (unusually) of goods. In the [Kingdom of England](http://en.wikipedia.org/wiki/Kingdom_of_England), customs duties were typically part of the customary revenue of the [king](http://en.wikipedia.org/wiki/Monarch), and therefore did not need [parliamentary](http://en.wikipedia.org/wiki/Parliament_of_England) consent to be levied, unlike [excise duty](http://en.wikipedia.org/wiki/Excises), [land tax](http://en.wikipedia.org/wiki/Land_tax), or other forms of taxes.

Commercial goods not yet cleared through customs are held in a [customs area](http://en.wikipedia.org/wiki/Customs_area), often called a bonded store, until processed. All authorised ports are recognised customs area.

Tariff

A **tariff** is either (1) a tax on [imports](http://en.wikipedia.org/wiki/Imports) or [exports](http://en.wikipedia.org/wiki/Exports) (trade tariff) in and out of a country, or (2) a list or schedule of prices for such things as [rail](http://en.wikipedia.org/wiki/Rail_transport) service, [bus routes](http://en.wikipedia.org/wiki/Bus_routes), and [electrical](http://en.wikipedia.org/wiki/Electrical) usage (electrical tariff, etc.).[[1]](http://en.wikipedia.org/wiki/Tariff#cite_note-0)

The word comes from the Italian word *tariffa* "list of prices, book of rates," which is derived from the Arabic *ta'rif* "to notify or announce."[[2]](http://en.wikipedia.org/wiki/Tariff#cite_note-1)

*Ad valorem* tax

An ***ad valorem* tax** ([Latin](http://en.wikipedia.org/wiki/Latin_language) for "according to value") is a [tax](http://en.wikipedia.org/wiki/Tax) based on the value of [real estate](http://en.wikipedia.org/wiki/Real_estate) or [personal property](http://en.wikipedia.org/wiki/Personal_property). It is more common than a **specific duty**, a tax based on the quantity of an item, such as cents per kilogram, regardless of price.

An *ad valorem* tax is typically imposed at the time of a transaction(s) (a [sales tax](http://en.wikipedia.org/wiki/Sales_tax) or [value-added tax](http://en.wikipedia.org/wiki/Value-added_tax) (VAT)), but it may be imposed on an annual basis (real or personal [property tax](http://en.wikipedia.org/wiki/Property_tax)) or in connection with another significant event ([inheritance tax](http://en.wikipedia.org/wiki/Inheritance_tax), surrendering citizenship,[[1]](http://en.wikipedia.org/wiki/Ad_valorem_tax#cite_note-0) or [tariffs](http://en.wikipedia.org/wiki/Tariff)). In some countries [stamp duty](http://en.wikipedia.org/wiki/Stamp_duty) is imposed as an *ad valorem* tax.

Harmonized System

The **Harmonized Commodity Description and Coding System** (HS) of [tariff](http://en.wikipedia.org/wiki/Tariff) [nomenclature](http://en.wikipedia.org/wiki/Nomenclature) is an internationally standardized system of names and numbers for classifying traded products developed and maintained by the [World Customs Organization](http://en.wikipedia.org/wiki/World_Customs_Organization) (WCO) (formerly the Customs Co-operation Council), an independent intergovernmental organization with over 170 member countries based in [Brussels](http://en.wikipedia.org/wiki/Brussels), Belgium.

Structure

Under the HS Convention, the contracting [parties](http://en.wikipedia.org/wiki/Party_(law)) are obliged to base their tariff schedules on the HS nomenclature, although parties set their own rates of [duty](http://en.wikipedia.org/wiki/Duty_(economics)). The HS is organized into 21 sections and 96 chapters, accompanied with general rules of interpretation and explanatory notes. The system begins by assigning goods to categories of crude and natural products, and from there proceeds to categories with increasing complexity. The codes with the broadest coverage are the first four digits, and are referred to as the heading. The HTS therefore sets forth all the international nomenclature through the 6-digit level and, where needed, contains added subdivisions assigned 2 more digits, for a total of 8 at the tariff-rate line (legal) level. Two final (non-legal) digits are assigned as statistical reporting numbers if warranted, for a total of 10 digits to be listed on entries.

To ensure harmonization, the contracting parties must employ all 4- and 6-digit provisions and the international rules and notes without deviation, but are free to adopt additional subcategories and notes. The two final chapters, 98 and 99, are reserved for national use. Chapter 77 is reserved for future international use. Chapter 98 comprises special classification provisions, and chapter 99 contains temporary modifications pursuant to a parties' national directive or legislation.

Classification

All existing [products](http://en.wikipedia.org/wiki/Product_(business)) can be classified into the existing HS utilizing the General Rules of Interpretation. This structure allows for placement through research of the products form and function. An example of the former would be whole potatoes, while an example of the latter would be a [resistance heated](http://en.wikipedia.org/wiki/Joule_heating) electric oven.

Applications

[As of](http://en.wikipedia.org/wiki/As_of) 17 October 2011, there are 206 countries or territories applying the Harmonized System worldwide,[[1]](http://en.wikipedia.org/wiki/Harmonized_System#cite_note-0) representing more than 98% of world trade. The HS is used as a basis for:

* Customs tariffs
* Collection of [international trade](http://en.wikipedia.org/wiki/International_trade) statistics
* [Rules of origin](http://en.wikipedia.org/wiki/Rules_of_origin)
* Collection of internal taxes
* Trade negotiations (e.g., the [World Trade Organization](http://en.wikipedia.org/wiki/World_Trade_Organization) schedules of [tariff](http://en.wikipedia.org/wiki/Tariff) concessions)
* Transport tariffs and statistics
* Monitoring of controlled goods (e.g., wastes, [narcotics](http://en.wikipedia.org/wiki/Narcotic), [chemical weapons](http://en.wikipedia.org/wiki/Chemical_weapon), [ozone layer](http://en.wikipedia.org/wiki/Ozone_layer) depleting substances, [endangered species](http://en.wikipedia.org/wiki/Endangered_species))
* Areas of Customs controls and procedures, including risk assessment, information technology and compliance.

Codes have been revised through the years. If it is necessary to reference a code related to a trade issue from the past, one must make sure the definition set being used matches the code.

Invoice

An **invoice** or **bill** is a [commercial](http://en.wikipedia.org/wiki/Commerce) document issued by a [seller](http://en.wikipedia.org/wiki/Sales) to the [buyer](http://en.wikipedia.org/wiki/Buyer), indicating the [products](http://en.wikipedia.org/wiki/Product_(business)), quantities, and agreed [prices](http://en.wikipedia.org/wiki/Price) for products or [services](http://en.wikipedia.org/wiki/Service_(economics)) the seller has provided the buyer. An invoice indicates the buyer must pay the seller, according to the [payment terms](http://en.wikipedia.org/wiki/Payment_terms). The buyer has a maximum amount of days to pay for these goods and is sometimes offered a discount if paid before the due date.

In the rental industry, an invoice must include a specific reference to the duration of the time being billed, so in addition to quantity, price and discount the invoicing amount is also based on duration. Generally speaking each line of a rental invoice will refer to the actual hours, days, weeks, months, etc. being billed.

From the point of view of a seller, an invoice is a *sales invoice*. From the point of view of a buyer, an invoice is a *purchase invoice*. The document indicates the buyer and seller, but the term *invoice* indicates money is owed *or* owing. In English, the context of the term *invoice* is usually used to clarify its meaning, such as "We sent them an invoice" (they owe us money) or "We received an invoice from them" (we owe them money).

Invoice

**A typical invoice contains** [[1]](http://en.wikipedia.org/wiki/Invoice#cite_note-0) [[2]](http://en.wikipedia.org/wiki/Invoice#cite_note-1)

* The word *invoice* (or *Tax Invoice* if in Australia and amounts include GST).
* A unique reference number (in case of correspondence about the invoice)
* Date of the invoice.
* Tax payments if relevant (e.g. GST or VAT)
* Name and contact details of the seller
* Tax or company registration details of seller (if relevant)
* Name and contact details of the buyer
* Date that the product was sent or delivered
* [Purchase order](http://en.wikipedia.org/wiki/Purchase_order) number (or similar tracking numbers requested by the buyer to be mentioned on the invoice)
* Description of the product(s)
* Unit price(s) of the product(s) (if relevant)
* Total amount charged (optionally with breakdown of taxes, if relevant)
* Payment terms (including method of payment, date of payment, and details about charges for late payment)

In countries where [wire transfer](http://en.wikipedia.org/wiki/Wire_transfer) is the preferred method of settling debts the printed bill will contain the [bank account number](http://en.wikipedia.org/wiki/Bank_account_number) of the debtor and usually a reference code to be passed along the transaction identifying the payer.

The US Defense Logistics Agency requires an [employer identification number](http://en.wikipedia.org/wiki/Employer_identification_number) on invoices.[[3]](http://en.wikipedia.org/wiki/Invoice#cite_note-2)

The European Union requires a [VAT (value added tax) identification number](http://en.wikipedia.org/wiki/Value_added_tax_identification_number).

In Canada, the registration number for [GST](http://en.wikipedia.org/wiki/Goods_and_Services_Tax_(Canada)) purposes must be furnished for all supplies over $30 made by a registered supplier, in order to claim input tax credits.[[4]](http://en.wikipedia.org/wiki/Invoice#cite_note-3)

Recommendation about invoices used in international trade is also provided by the [UNECE](http://en.wikipedia.org/wiki/United_Nations_Economic_Commission_for_Europe) Committee on Trade, which involves more detailed description of logistics aspect of merchandise and therefore may be convenient for international logistics and customs procedures.[[5]](http://en.wikipedia.org/wiki/Invoice#cite_note-4)

## Variations

There are different types of invoices:

* [Pro forma](http://en.wikipedia.org/wiki/Pro_forma) invoice — In [foreign trade](http://en.wikipedia.org/wiki/Foreign_trade), a *pro forma* invoice is a document that states a commitment from the seller to provide specified goods to the buyer at specific prices. It is often used to declare value for [customs](http://en.wikipedia.org/wiki/Customs). It is not a true invoice, because the seller does not record a *pro forma* invoice as an [accounts receivable](http://en.wikipedia.org/wiki/Accounts_receivable) and the buyer does not record a *pro forma* invoice as an [accounts payable](http://en.wikipedia.org/wiki/Accounts_payable). A *pro forma* invoice is not issued by the seller until the seller and buyer have agreed to the terms of the [order](http://en.wikipedia.org/wiki/Order_(business)). In few cases, *pro forma* invoice is issued for obtaining advance payments from buyer, either for start of production or for security of the goods produced.
* [Credit memo](http://en.wikipedia.org/wiki/Credit_memo) - If the buyer returns the product, the seller usually issues a credit memo for the same or lower amount than the invoice, and then refunds the money to the buyer, or the buyer can apply that credit memo to another invoice.
* [Commercial invoice](http://en.wikipedia.org/wiki/Commercial_invoice) - a [customs](http://en.wikipedia.org/wiki/Customs) declaration form used in international trade that describes the parties involved in the shipping transaction, the goods being transported, and the value of the goods.[[6]](http://en.wikipedia.org/wiki/Invoice#cite_note-5) It is the primary document used by customs, and must meet specific customs requirements, such as the [Harmonized System](http://en.wikipedia.org/wiki/Harmonized_System) number and the country of manufacture. It is used to calculate [tariffs](http://en.wikipedia.org/wiki/Tariff).
* **Debit memo** - When a company fails to pay or short-pays an invoice, it is common practice to issue a *debit memo* for the [balance](http://en.wikipedia.org/wiki/Balance_(accounting)) and any late fees owed. In function debit memos are identical to invoices.
* **Self-billing invoice** - A *self billing invoice* is when the buyer issues the invoice to himself (e.g. according to the consumption levels he is taking out of a [vendor-managed inventory](http://en.wikipedia.org/wiki/Vendor-managed_inventory) stock).
* **Evaluated receipt settlement (ERS)** - ERS is a process of paying for goods and services from a [packing slip](http://en.wikipedia.org/wiki/Packing_slip) rather than from a separate invoice document. The payee uses data in the packing slip to apply the payments. "In an ERS transaction, the supplier ships goods based upon an Advance Shipping Notice (ASN), and the purchaser, upon [receipt](http://en.wikipedia.org/wiki/Receipt), confirms the existence of a corresponding purchase order or contract, verifies the identity and quantity of the goods, and then pays the supplier."[[7]](http://en.wikipedia.org/wiki/Invoice#cite_note-6)
* **Timesheet** - Invoices for hourly services such as by [lawyers](http://en.wikipedia.org/wiki/Lawyer) and [consultants](http://en.wikipedia.org/wiki/Consultant) often pull data from a [timesheet](http://en.wiktionary.org/wiki/timesheet). A Timesheet invoice may also be generated by [Operated equipment rental companies](http://en.wikipedia.org/wiki/Operated_equipment_rental) where the invoice will be a combination of timesheet based charges and equipment rental charges.
* **Invoicing** - The term **invoicing** is also used to refer to the act of [delivering](http://en.wikipedia.org/wiki/Delivery_(business)) [baggage](http://en.wikipedia.org/wiki/Luggage) to a [flight company](http://en.wikipedia.org/wiki/Airline) in an [airport](http://en.wikipedia.org/wiki/Airport) before taking a flight.
* **Statement** - A periodic customer statement includes opening balance, invoices, payments, credit memos, debit memos, and ending balance for the customer's account during a specified period. A monthly statement can be used as a summary invoice to request a single payment for accrued monthly charges.
* **Progress billing** used to obtain partial payment on extended contracts, particularly in the construction industry (see [Schedule of values](http://en.wikipedia.org/wiki/Schedule_of_values))
* **Collective Invoicing** is also known as monthly invoicing in [Japan](http://en.wikipedia.org/wiki/Japan). Japanese businesses tend to have many orders with small amounts because of the outsourcing system ([Keiretsu](http://en.wikipedia.org/wiki/Keiretsu)), or of demands for less inventory control ([Kanban](http://en.wikipedia.org/wiki/Kanban)). To save the administration work, invoicing is normally processed on monthly basis.
* **Continuation or Recurring Invoicing** is standard within the equipment rental industry, including tool rental. A recurring invoice is one generated on a cyclical basis during the lifetime of a rental contract. For example if you rent an excavator from 1 January to 15 April, on a calendar monthly arrears billing cycle, you would expect to receive an invoice at the end of January, another at the end of February, another at the end of March and a final Off-rent invoice would be generated at the point when the asset is returned. The same principle would be adopted if you were invoiced in advance, or if you were invoiced on a specific day of the month.
* **Electronic Invoicing** is not necessarily the same as EDI invoicing. Electronic invoicing in its widest sense embraces EDI as well as XML invoice messages as well as other format such as pdf. Historically, other formats such as pdf were not included in the wider definition of an electronic invoice because they were not machine readable and the process benefits of an electronic message could not be achieved. However, as data extraction techniques have evolved and as environmental concerns have begun to dominate the business case for the implementation of electronic invoicing, other formats are now incorporated into the wider definition.

Commercial invoice

A **commercial invoice** is a document used in [foreign trade](http://en.wikipedia.org/wiki/Foreign_trade). It is used as a [customs](http://en.wikipedia.org/wiki/Customs) declaration provided by the person or corporation that is exporting an item across international borders.[[1]](http://en.wikipedia.org/wiki/Commercial_invoice#cite_note-0) [[2]](http://en.wikipedia.org/wiki/Commercial_invoice#cite_note-1)Although there is no standard format, the document must include a few specific pieces of information such as the parties involved in the shipping transaction, the goods being transported, the country of manufacture, and the [Harmonized System](http://en.wikipedia.org/wiki/Harmonized_System) codes for those goods. A commercial invoice must also include a statement certifying that the invoice is true, and a signature.

A commercial invoice is used to calculate [tariffs](http://en.wikipedia.org/wiki/Tariffs), international commercial terms (like the Cost in a CIF) and is commonly used for customs purposes.

Commercial invoices are in European countries not normally for payment. The definitive [**invoice**](http://en.wikipedia.org/wiki/Invoice) for payment usually has only the words "invoice". This invoice can also be used as a commercial invoice if additional information is disclosed.

**A sample commercial invoice format** [[3]](http://en.wikipedia.org/wiki/Commercial_invoice#cite_note-2)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **COMMERCIAL INVOICE** | | | | | | |
| SENDER: AUTO PARTS FEE WAREHOUSE 7634 KIMBEL STREET UNIT 1-9 MISSISSAUGA,ON L5S-1M6 Phone:905.677.0996 Fax: 999-999-9999 Tax ID/VAT/EIN# nnnnnnnnnn | | | RECIPIENT: XYZ Company 3 Able End There, Shropshire, UK Phone:99-99-9999 | | | |
| Invoice Date: 12 December 2007 | | | Invoice Number: 0256982 | | | |
| Carrier tracking number: 526555598 | | | Sender's Reference: 5555555 | | | |
| Carrier: GHI Transport Company | | | Recipient's Reference: 5555555 | | | |
| Quantity | Country of Origin | Description of Contents | [Harmonised Code](http://en.wikipedia.org/wiki/Harmonised_code) | Unit Weight | Unit Value | Subtotal (USD) |
| 1,000 | United States of America | Widgets | 999999 | 2 | 10.00 | 10,000 |
| Total Net Weight (lbs): | 2,000 | Total Declared Value (USD): | 10,000 | | | |
| Total Gross Weight (lbs): | 2,050 | Freight and Insurance Charges (USD): | 300.00 | | | |
| Total Shipment Pieces: | 1,000 | Other Charges (USD): | 30.00 | | | |
| Currency Code: | USD | Total Invoice Amount (USD): | 10,000 | | | |
| Type of Export: Permanent | | | Terms of Trade: Delivery Duty Unpaid | | | |
| Reason for Export: *stated reason* | | | | | | |
| General Notes: *notes and comments* | | | | | | |
| The exporter of the products covered by this document - *customs authorization number* - declares that, except where otherwise clearly indicated, these products are of United States Of America preferential origin.  I/We hereby certify that the information on this invoice is true and correct and that the contents of this shipment are as stated above.  Name, Position in exporting company, company stamp, signature | | | | | | |

Certificate of origin

A **Certificate of Origin** (often abbreviated to CO or COO) is a [document](http://en.wikipedia.org/wiki/Document) used in [international trade](http://en.wikipedia.org/wiki/International_trade). It is a printed form, completed by the exporter or its agent and certified by an issuing body, attesting that the goods in a particular export shipment have been wholly produced, manufactured or processed in a particular country.

The “origin” does not refer to the country where the goods were shipped from but to the country where they were made. In the event the products were manufactured in two or more countries, origin is obtained in the country where the last substantial economically justified working or processing is carried out. An often used practice is that if more than 50% of the cost of producing the goods originates from one country, the "national content" is more than 50%, then, that country is acceptable as the [country of origin](http://en.wikipedia.org/wiki/Country_of_origin).[[1]](http://en.wikipedia.org/wiki/Certificate_of_origin#cite_note-0)

When countries unite in trading agreements, they may allow Certificate of Origin [[2]](http://en.wikipedia.org/wiki/Certificate_of_origin#cite_note-1) to state the trading bloc, for example, the [European Union](http://en.wikipedia.org/wiki/European_Union) (EU) as origin, rather than the specific country. Determining the origin of a product is important because it is a key basis for applying tariff and other important criteria. However, not all exporters need a certificate of origin, this will depend on the destination of the goods, their nature, and it can also depend on the financial institution involved in the export operation.

Letter of credit

A **letter of credit** is a document that a financial institution or similar party issues to a seller of goods or services which provides that the issuer will pay the seller for goods or services the seller delivers to a third-party buyer.[[1]](http://en.wikipedia.org/wiki/Letter_of_credit#cite_note-0) The issuer then seeks reimbursement from the buyer or from the buyer's bank. The document serves essentially as a guarantee to the seller that it will be paid by the issuer of the letter of credit regardless of whether the buyer ultimately fails to pay. In this way, the risk that the buyer will fail to pay is transferred from the seller to the letter of credit's issuer.

Letters of credit are used primarily in [international trade](http://en.wikipedia.org/wiki/International_trade) for large transactions between a supplier in one country and a customer in another. In such cases, the International Chamber of Commerce [Uniform Customs and Practice for Documentary Credits](http://en.wikipedia.org/wiki/Uniform_Customs_and_Practice_for_Documentary_Credits) applies (UCP 600 being the latest version).[[2]](http://en.wikipedia.org/wiki/Letter_of_credit#cite_note-1)They are also used in the land development process to ensure that approved public facilities (streets, sidewalks, storm water ponds, etc.) will be built. The parties to a letter of credit are the supplier, usually called the **beneficiary**, *the issuing bank*, of whom the buyer is a client, and sometimes an [**advising bank**](http://en.wikipedia.org/wiki/Advising_bank), of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or cancelled without the consent of the beneficiary, issuing bank, and confirming bank, if any. In executing a transaction, letters of credit incorporate functions common to [giros](http://en.wikipedia.org/wiki/Giro) and [traveller’s cheques](http://en.wikipedia.org/wiki/Traveler%27s_cheque).

Bankers' acceptance

A **banker's acceptance**, or **BA**, is a promised future payment, or [time draft](http://en.wikipedia.org/wiki/Bankers%27_acceptance#Comparison_with_other_drafts), which is accepted and guaranteed by a [bank](http://en.wikipedia.org/wiki/Bank) and drawn on a deposit at the bank. The banker's acceptance specifies the amount of money, the date, and the person to which the payment is due. After acceptance, the draft becomes an unconditional liability of the bank. But the holder of the draft can sell (exchange) it for cash at a discount to a buyer who is willing to wait until the maturity date for the funds in the deposit.

A banker's acceptance starts as a time draft drawn on a bank deposit by a bank's customer to pay money at a future date, typically within six months, analogous to a post-dated check. Next, the bank accepts (guarantees) payment to the holder of the draft, analogous to a post-dated check drawn on a deposit with over-draft protection.

The party that holds the banker's acceptance may keep the acceptance until it matures, and thereby allow the bank to make the promised payment, or it may sell the acceptance at a discount today to any party willing to wait for the face value payment of the deposit on the maturity date. The rates at which they trade, calculated from the discount prices relative to their face values, are called banker's acceptance rates.[[1]](http://en.wikipedia.org/wiki/Sight_draft#cite_note-0)

Banker’s acceptances make a transaction between two parties who do not know each other safer because they allow the parties to substitute the bank's credit worthiness for that who owes the payment. They are used widely in international trade for payments that are due for a future shipment of goods and services. For example, an importer may draft a banker's acceptance when it does not have a close relationship with and cannot obtain credit from an exporter. Once the importer and bank have completed an acceptance agreement, whereby the bank accepts liabilities of the importer and the importer deposits funds at the bank (enough for the future payment plus fees), the importer can issue a time draft to the exporter for a future payment with the bank's guarantee.

Banker's acceptances are typically sold in multiples of US $100,000[[2]](http://en.wikipedia.org/wiki/Sight_draft#cite_note-1) Banker's acceptances smaller than this amount are referred to as [odd lots](http://en.wikipedia.org/wiki/Odd_lot).

Comparison with other drafts

When a draft promises immediate payment to the holder of the draft, it is called a **sight draft**. [Cheques](http://en.wikipedia.org/wiki/Cheques) written on demand deposits are examples of sight drafts. When a draft promises a deferred payment to the holder of the draft, it is called a **time draft**. The date on which the payment is due is called the maturity date. In a case where the drawer and drawee of a time draft are distinct parties, the payee may submit the draft to the drawee for confirmation that the draft is a legitimate order and that the drawee will make payment on the specified date. Such confirmation is called an **acceptance** — the drawee accepts the order to pay as legitimate. The drawee stamps ACCEPTED on the draft and is thereafter obligated to make the specified payment when it is due. If the drawee is a bank, the acceptance is called a **banker's acceptance**.

Freight forwarder

[](http://en.wikipedia.org/wiki/File:Guangzhou-freight-forwarders-0448.jpg)

[magnify-clip](http://en.wikipedia.org/wiki/File:Guangzhou-freight-forwarders-0448.jpg)

The storefront of one of many freight forwarders located around [Guangzhou](http://en.wikipedia.org/wiki/Guangzhou)'s garment districts. The list of destinations indicates that this business serves importers of Chinese clothes to countries such as Russia and Azerbaijan.

A **freight forwarder**, **forwarder**, or **forwarding agent** is a person or company that organizes shipments for individuals or [corporations](http://en.wikipedia.org/wiki/Corporations) to get large orders from the [manufacturer](http://en.wikipedia.org/wiki/Manufacturer) or producer to market or final point of distribution. Forwarders will contract with a [carrier](http://en.wikipedia.org/wiki/Common_carrier) [[1]](http://en.wikipedia.org/wiki/Freight_forwarder#cite_note-0) [[2]](http://en.wikipedia.org/wiki/Freight_forwarder#cite_note-1) [[3]](http://en.wikipedia.org/wiki/Freight_forwarder#cite_note-2) to facilitate the movement of goods. A forwarder is not typically a carrier, but is an expert in supply chain management. In other words, a freight forwarder is a "travel agent," for the cargo industry, or a third-party (non-asset-based) [logistics](http://en.wikipedia.org/wiki/Logistics) provider. A forwarder will contract with asset-based carriers to move cargo ranging from raw agricultural products to manufactured goods. Freight can be booked on a variety of carrier types, including [ships](http://en.wikipedia.org/wiki/Ships), [airplanes](http://en.wikipedia.org/wiki/Fixed-wing_aircraft), [trucks](http://en.wikipedia.org/wiki/Truck), and [railroads](http://en.wikipedia.org/wiki/Railroad). It's not unusual for a shipment to move along its route on multiple carrier types.

International freight forwarders typically arrange [cargo](http://en.wikipedia.org/wiki/Cargo) movement to an international destination. International freight forwarders, have the expertise that allows them to prepare and process the documentation and perform related activities pertaining to international shipments. Some of the typical information reviewed by a freight forwarder is the [commercial invoice](http://en.wikipedia.org/wiki/Commercial_invoice), [shipper's export declaration](http://en.wikipedia.org/wiki/Automated_export_system), [bill of lading](http://en.wikipedia.org/wiki/Bill_of_lading), and other documents required by the carrier or country of [export](http://en.wikipedia.org/wiki/Export), [import](http://en.wikipedia.org/wiki/International_trade), or [transshipment](http://en.wikipedia.org/wiki/Transshipment). Much of this information is now processed in a [paperless environment](http://en.wikipedia.org/wiki/Paperless_office).

The [FIATA](http://en.wikipedia.org/wiki/International_Federation_of_Freight_Forwarders_Associations) short-hand description of the freight forwarder as the 'Architect of Transport' illustrates clearly the commercial position of the forwarder relative to his client. In Europe there are forwarders that specialize in 'niche' areas such as rail-freight and collection and deliveries around a large port. The latter are called Hafen (port) Spediteure (Port Forwarders).

Negotiable instrument

A **negotiable instrument** is a document guaranteeing the payment of a specific amount of money, either on demand, or at a set time. Negotiable instruments are often defined in legislation. For example, according to the Section 13 of the Negotiable Instruments Act, 1881 in India, a negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer. So, in India, there are just three types of negotiable instruments such as [promissory note](http://en.wikipedia.org/wiki/Promissory_note), [bill of exchange](http://en.wikipedia.org/wiki/Negotiable_instrument#Bill_of_exchange) and [cheque](http://en.wikipedia.org/wiki/Cheque). Cheque also includes Demand Draft [Section 85A].

More specifically, it is a document contemplated by a [contract](http://en.wikipedia.org/wiki/Contract), which (1) warrants the payment of money, the promise of or order for conveyance of which is unconditional; (2) specifies or describes the payee, who is designated on and memorialized by the instrument; and (3) is capable of change through transfer by valid negotiation of the instrument.

As a negotiable instrument is a promise of a payment of money, the instrument itself can be used by the [holder in due course](http://en.wikipedia.org/wiki/Holder_in_due_course) as a store of value; although, instruments can be transferred for amounts in contractual exchange that are less than the instrument’s face value (known as “discounting”). Under [United States law](http://en.wikipedia.org/wiki/United_States_law), Article 3 of the [Uniform Commercial Code](http://en.wikipedia.org/wiki/Uniform_Commercial_Code) as enacted in the applicable State law governs the use of negotiable instruments, except [banknotes](http://en.wikipedia.org/wiki/Banknotes) (“[Federal Reserve Notes](http://en.wikipedia.org/wiki/Federal_Reserve_Notes)”, aka "paper [dollars](http://en.wikipedia.org/wiki/Dollar)").

## Negotiable instruments distinguished from other types of contracts

A negotiable instrument can serve to convey value constituting at least part of the performance of a [contract](http://en.wikipedia.org/wiki/Contract), albeit perhaps not obvious in contract formation, in terms inherent in and arising from the requisite offer and acceptance and conveyance of consideration. The underlying contract contemplates the right to hold the instrument as, and to negotiate the instrument to, a *holder in due course*, the payment on which is at least part of the performance of the contract to which the negotiable instrument is linked. The instrument, memorializing (1) the power to demand payment; and, (2) the right to be paid, can move, for example, in the instance of a '[bearer instrument](http://en.wikipedia.org/wiki/Bearer_instrument)', wherein the possession of the document itself attributes and ascribes the right to payment. Certain exceptions exist, such as instances of loss or theft of the instrument, wherein the possessor of the note may be a holder, but not necessarily a holder in due course. Negotiation requires a valid *endorsement* of the negotiable instrument. The consideration constituted by a negotiable instrument is cognizable as the value given up to acquire it (benefit) and the consequent loss of value (detriment) to the prior holder; thus, no separate consideration is required to support an accompanying contract assignment. The instrument itself is understood as memorializing the right for, and power to demand, payment, and an obligation for payment evidenced by the instrument itself with possession as a holder in due course being the touchstone for the right to, and power to demand, payment. In some instances, the negotiable instrument can serve as the writing memorializing a contract, thus satisfying any applicable [Statute of Frauds](http://en.wikipedia.org/wiki/Statute_of_frauds) as to that contract.

### The holder in due course

The rights of a [holder in due course](http://en.wikipedia.org/wiki/Holder_in_due_course) of a negotiable instrument are qualitatively, as matters of law, superior to those provided by ordinary species of contracts:

* The rights to payment are not subject to [set-off](http://en.wikipedia.org/wiki/Set-off_(law)), and do not rely on the validity of the underlying contract giving rise to the debt (for example if a cheque was drawn for payment for goods delivered but defective, the drawer is still liable on the cheque)
* No notice need be given to any party liable on the instrument for transfer of the rights under the instrument by negotiation. However, payment by the party liable to the person previously entitled to enforce the instrument "counts" as payment on the note until adequate notice has been received by the liable party that a different party is to receive payments from then on. [U.C.C. §3-602(b)]
* Transfer free of equities—the holder in due course can hold better title than the party he obtains it from (as in the instance of negotiation of the instrument from a mere holder to a holder in due course)

Negotiation often enables the transferee to become the party to the contract through a contract assignment (provided for explicitly or by operation of law) and to enforce the contract in the transferee-assignee’s own name. Negotiation can be effected by endorsement and delivery (order instruments), or by delivery alone ([bearer instruments](http://en.wikipedia.org/wiki/Bearer_instrument)).

## Classes

Promissory notes and bills of exchange are two primary types of negotiable instruments.

### Promissory note

A [promissory note](http://en.wikipedia.org/wiki/Promissory_note) is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand to the *payee*, or at fixed or determinable future time, certain in money, to order or to bearer. (see Sec.194) [Bank note](http://en.wikipedia.org/wiki/Bank_note) is frequently referred to as a promissory note, a promissory note made by a bank and payable to bearer on demand.

### Bill of exchange

A bill of exchange or "draft" is a written order by the [drawer](http://en.wiktionary.org/wiki/drawer) to the [drawee](http://en.wiktionary.org/wiki/drawee) to pay money to the [payee](http://en.wiktionary.org/wiki/payee). A common type of bill of exchange is the [cheque](http://en.wikipedia.org/wiki/Cheque) (*check* in [American English](http://en.wikipedia.org/wiki/American_English)), defined as a bill of exchange drawn on a banker and payable on demand. Bills of exchange are used primarily in international trade, and are written orders by one person to his bank to pay the bearer a specific sum on a specific date. Prior to the advent of paper currency, bills of exchange were a common means of exchange. They are not used as often today.

[](http://en.wikipedia.org/wiki/File:Credit1.jpg)

[magnify-clip](http://en.wikipedia.org/wiki/File:Credit1.jpg)

Bill of exchange, 1933

A bill of exchange is essentially an order made by one person to another to pay money to a third person. A bill of exchange requires in its inception three parties—the drawer, the drawee, and the payee. The person who draws the bill is called the drawer. He gives the order to pay money to the third party. The party upon whom the bill is drawn is called the drawee. He is the person to whom the bill is addressed and who is ordered to pay. He becomes an acceptor when he indicates his willingness to pay the bill. The party in whose favor the bill is drawn or is payable is called the payee. The parties need not all be distinct persons. Thus, the drawer may draw on himself payable to his own order.

A bill of exchange may be endorsed by the payee in favour of a third party, who may in turn endorse it to a fourth, and so on indefinitely. The "holder in due course" may claim the amount of the bill against the drawee and all previous endorsers, regardless of any counterclaims that may have disabled the previous payee or endorser from doing so. This is what is meant by saying that a bill is negotiable.

In some cases a bill is marked "not negotiable" – see [crossing of cheques](http://en.wikipedia.org/wiki/Crossing_of_cheques). In that case it can still be transferred to a third party, but the third party can have no better right than the transferor.

Bill of lading

**A**[bill of lading](http://en.wikipedia.org/wiki/Bill_of_lading) (sometimes referred to as a BOL or B/L) is a document issued by a carrier to a shipper, acknowledging that specified goods have been received on board as cargo for conveyance to a named place for delivery to the consignee who is usually identified. A thorough bill of lading involves the use of at least two different modes of transport from road, rail, air, and sea. The term derives from the verb "to lade" which means to load a cargo onto a ship or other form of transportation.

A bill of lading can be used as a traded object. The standard short form bill of lading is evidence of the contract of carriage of goods and it serves a number of purposes:

* It is evidence that a valid contract of carriage, or a chartering contract, exists, and it may incorporate the full terms of the contract between the consignor and the carrier by reference (i.e. the short form simply refers to the main contract as an existing document, whereas the long form of a bill of lading (connaissement intégral) issued by the carrier sets out all the terms of the contract of carriage);
* It is a receipt signed by the carrier confirming whether goods matching the contract description have been received in good condition (a bill will be described as clean if the goods have been received on board in apparent good condition and stowed ready for transport); and
* It is also a document of transfer, being freely transferable but not a negotiable instrument in the legal sense, i.e. it governs all the legal aspects of physical carriage, and, like a cheque or other negotiable instrument, it may be endorsed affecting ownership of the goods actually being carried. This matches everyday experience in that the contract a person might make with a commercial carrier like FedEx for mostly airway parcels, is separate from any contract for the sale of the goods to be carried, however it binds the carrier to its terms, irrespectively of who the actual holder of the B/L, and owner of the goods, may be at a specific moment.

Terms of trade

In international [economics](http://en.wikipedia.org/wiki/Economics) and [international trade](http://en.wikipedia.org/wiki/International_trade), **terms of trade** or TOT is (Price of exportable goods)/(Price of importable goods). In layman's terms it means what quantity of imports can be purchased through the sale of a fixed quantity of exports. "Terms of trade" are sometimes used as a proxy for the relative [social welfare](http://en.wikipedia.org/wiki/Social_welfare) of a country, but this heuristic is technically questionable and should be used with extreme caution. An improvement in a nation's terms of trade (the increase of the ratio) is good for that country in the sense that it can buy more imports for any given level of exports. The terms of trade is influenced by the exchange rate because a rise in the value of a country's currency lowers the domestic prices for its imports but does not directly affect the commodities it produces (i.e. its exports).

Limitations

Terms of trade should not be used as synonymous with social welfare, or even [Pareto economic welfare](http://en.wikipedia.org/wiki/Pareto_efficiency). Terms of trade calculations do not tell us about the volume of the countries' exports, only relative changes between countries. To understand how a country's social [utility](http://en.wikipedia.org/wiki/Utility) changes, it is necessary to consider changes in the volume of trade, changes in productivity and resource allocation, and changes in capital flows.

The price of exports from a country can be heavily influenced by the value of its currency, which can in turn be heavily influenced by the interest rate in that country. If the value of currency of a particular country is increased due to an increase in interest rate one can expect the terms of trade to improve. However this may not necessarily mean an improved standard of living for the country since an increase in the price of exports perceived by other nations will result in a lower volume of exports. As a result, exporters in the country may actually be struggling to sell their goods in the international market even though they are enjoying a (supposedly) high price.

In the real world of over 200 nations trading hundreds of thousands of products, terms of trade calculations can get very complex. Thus, the possibility of errors is significant.

Import quota

An **import quota** is a limit on the quantity of a good that can be produced abroad and sold domestically.[[1]](http://en.wikipedia.org/wiki/Import_quota#cite_note-0) It is a type of [protectionist](http://en.wikipedia.org/wiki/Protectionism) [trade restriction](http://en.wikipedia.org/wiki/Trade_restriction) that sets a physical limit on the quantity of a good that can be [imported](http://en.wikipedia.org/wiki/Import) into a country in a given period of time. If a quota is put on a good, less of it is imported. [[2]](http://en.wikipedia.org/wiki/Import_quota#cite_note-1) Quotas, like other trade restrictions, are used to benefit the producers of a good in a domestic economy at the expense of all consumers of the good in that economy.

The primary goal of import quotas is to reduce [imports](http://en.wikipedia.org/wiki/Imports) and increase domestic production of a good, service, or activity, thus "protect" domestic production by restricting foreign competition. As the quantity of importing the good is restricted, the price of the imported good increases thus encourages consumers to purchase more domestic products. In general, a quota is simply a legal quantity restriction placed on a good imported that is imposed by the domestic government.

Effects

Because the import quota prevents domestic consumers from buying an imported good, the supply of the good is no longer perfectly elastic at the world price. Instead, as long as the price of the good is above the world price, the license holders import as much as they are permitted, and the total supply of the good equals the domestic supply plus the quota amount. The price of the good adjusts to balance supply (domestic plus imported) and demand. The quota causes the price of the good to rise above the world price. The domestic quantity demanded falls and the domestic quantity supplied rises. Thus, the import quota reduces the imports.

Because the quota raises the domestic price above the world price, domestic sellers are better off, and domestic buyers are worse off. In addition, the license holders are better off because they make a profit from buying at the world price and selling at the higher domestic price. Thus, import quotas decrease consumer surplus while increasing producer surplus and license-holder surplus.

While import quotas and other foreign trade policies can be beneficial to the aggregate domestic economy they tend to be most beneficial, and thus most commonly promoted by, domestic firms facing competition from foreign imports. Domestic firms benefit with higher sales, greater profits, and more income to resource owners. However, by increasing domestic prices and restricting accessing to imports, foreign trade policies also tend to be harmful to domestic consumers.

Import quotas vs. tariffs [[5]](http://en.wikipedia.org/wiki/Import_quota#cite_note-4)

Both tariffs and import quotas reduce quantity of imports, raise domestic price of good, decrease welfare of domestic consumers, increase welfare of domestic producers, and cause [deadweight loss](http://en.wikipedia.org/wiki/Deadweight_loss). However, a quota can potentially cause an even larger deadweight loss, depending on the mechanism used to allocate the import licenses. The difference between these tariff and import quota is that tariff raises revenue for the government, whereas import quota generates surplus for firms that get the license to import.

For a firm that gets a license to import, profit per unit equals domestic price (at which imported good is sold) minus world price (at which good is bought) (minus any other costs). Total profit equals profit per unit times quantity sold.

Government may charge fees for import license. If the government sets the import license fee equal to difference between domestic price and world price, the import quota works exactly like a tariff. The entire profit of the firm with an import license is paid to the government. Thus government revenue is the same under such an import quota and a tariff. Also, consumer surplus and producer surplus are the same under such an import quota and a tariff.

So why do countries use import quotas instead of always using a tariff?

When an import quota is used, it allows a country to be sure of the amount of the good imported from the foreign country. When there is a tariff, if the supply curve of the foreign country is unknown, the quantity of the good imported may not be predictable.

If world supply in the home country is upward-sloping and less elastic than domestic demand (as may be the case when the home country is the United States) then the incidence of the tariff may fall on producers, and the price paid domestically may not rise by much. Then if the tariff is supposed to make price of the good rise to allow domestic producers to sell at a higher price, the tariff may not have much of the desired effect. A quota may do more to raise price. However in competitive markets there is always some tariff that raises the price as high as the quota does.

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# I Introduction to economic concept and tools

## Scarcity

­­­­­­­­­­­Scarcity is the fundamental [economic problem](http://en.wikipedia.org/wiki/Economic_problem) of having humans who have wants and needs in a world of limited [resources](http://en.wikipedia.org/wiki/Resource). It states that [society](http://en.wikipedia.org/wiki/Society) has insufficient productive resources to fulfill all human wants and needs. Alternatively, scarcity implies that not all of society's goals can be pursued at the same time; [trade-offs](http://en.wikipedia.org/wiki/Trade-off) are made of one good against others.

## Scarcity in Economics

­[Goods](http://en.wikipedia.org/wiki/Good_(economics)) (and [services](http://en.wikipedia.org/wiki/Service_(economics))) that are scarce are called economic goods (or simply *goods* if their scarcity is presumed). Other goods are called [free goods](http://en.wikipedia.org/wiki/Free_good) if they are desired but in such abundance that they are not scarce, such as air and seawater. Too much of something freely available can informally be referred to as a *bad*, but then its absence can be classified as a good, thus, a *mown* lawn, *clean* air, etc.

Economists study how societies perform the allocation of these resources — along with how communities often fail to attain optimality and are instead [inefficient](http://en.wikipedia.org/wiki/Inefficient). More clearly scarcity is our infinite wants hitting up against finite resources.

Certain goods are likely to remain inherently scarce by definition or by design; examples include [land](http://en.wikipedia.org/wiki/Land_(economics)) and [positional goods](http://en.wikipedia.org/wiki/Positional_good) such as awards generated by [honor systems](http://en.wikipedia.org/wiki/Honor_system), [fame](http://en.wikipedia.org/wiki/Celebrity), and membership of [elite](http://en.wikipedia.org/wiki/Elite) social groups. These things are said to derive all or most of their value from their scarcity. Even in a theoretical [post scarcity](http://en.wikipedia.org/wiki/Post_scarcity) society, certain goods, such as desirable [land](http://en.wikipedia.org/wiki/Land) and original [art](http://en.wikipedia.org/wiki/Art) pieces, would most likely remain scarce. But these may be seen as examples of artificial scarcity, reflecting societal institutions - for instance, the resource cost of giving someone the title of "[knight of the realm](http://en.wikipedia.org/wiki/Knight_of_the_realm)" is much less than the value that individuals attach to that [title](http://en.wikipedia.org/wiki/Title).

## Planned economy

A planned economy is an [economic system](http://en.wikipedia.org/wiki/Economic_system) in which decisions regarding production and investment are embodied in a plan formulated by a central authority, usually by a government agency. The justification for central planning is that the consolidation of economic resources can allow for the economy to take advantage of more [perfect information](http://en.wikipedia.org/wiki/Perfect_information) when making decisions regarding investment and production. In an entirely centralized economy, a universal survey of human needs and consumer wants is required before a comprehensive plan for production can be formulated. The state would require the power to allocate the workforce, for setting production values and for overseeing the distribution system of the economy. The most extensive form of a planned economy is referred to as a command economy,centrally planned economy, or command and control economy.

In such economies, central [economic planning](http://en.wikipedia.org/wiki/Economic_planning) by the [state](http://en.wikipedia.org/wiki/State_(polity)) or [government](http://en.wikipedia.org/wiki/Government) controls all major sectors of the economy and formulates all decisions about the use of resources.Planners decide what should be produced and direct lower-level enterprises to produce those goods in accordance with national and social objectives.

Planned economies are in contrast to [unplanned economies](http://en.wikipedia.org/wiki/Unplanned_economies), i.e. the [market economy](http://en.wikipedia.org/wiki/Market_economy) and proposed [self-managed economy](http://en.wikipedia.org/wiki/Self-managed_economy), where production, distribution, pricing, and investment decisions are made by autonomous firms based upon their individual interests rather than upon a [macroeconomic](http://en.wikipedia.org/wiki/Macroeconomics) plan. Less extensive forms of planned economies include those that use [indicative planning](http://en.wikipedia.org/wiki/Indicative_planning), in which the state employs "influence, subsidies, grants, and taxes, but does not compel."This latter is sometimes referred to as a "planned market economy".

A planned economy may consist of state-owned enterprises, cooperative enterprises, private enterprises directed by the state, or a combination of different enterprise types. Though "planned economy" and "command economy" are often used as synonyms, some make the distinction that under a command economy, enterprises need not follow a comprehensive plan of production. That is, a planned economy is "an economic system in which the government controls and regulates production, distribution, prices, etc."But a command economy, while also having this type of regulation, necessarily has substantial public ownership of industry.  Therefore, command economies are planned economies, but not necessarily the reverse.

## Economic planning versus the command economy

Economic planning is a mechanism for resource allocation of inputs and decision-making based on direct allocation, in contrast with the [market mechanism](http://en.wikipedia.org/wiki/Market_economy), which is based on indirect allocation. An economy based on economic planning (either through the state, an association of [worker cooperatives](http://en.wikipedia.org/wiki/Worker_cooperative) or another economic entity that has jurisdiction over the means of production) appropriates its resources as needed, so that allocation comes in the form of internal transfers rather than market transactions involving the purchasing of assets by one government agency or firm by another. Decision-making is carried out by workers and consumers on the enterprise-level.

This is contrasted with the concept of a centrally-planned, or command economy, where most of the economy is planned by a central government authority, and organized along a top-down administration where decisions regarding investment, production output requirements are decided upon by planners from the top, or near the top, of the chain of command. Advocates of economic planning have sometimes been staunch critics of command economies and centralized planning. For example, [Leon Trotsky](http://en.wikipedia.org/wiki/Leon_Trotsky) believed that central planners, regardless of their intellectual capacity, operated without the input and participation of the millions of people who participate in the economy and understand/respond to local conditions and changes in the economy would be unable to effectively coordinate all economic activity.

Another key difference is that command economies are strictly authoritarian in nature, whereas some forms of economic planning, such as [indicative planning](http://en.wikipedia.org/wiki/Indicative_planning), direct the economy through incentive-based methods. Economic planning can be practiced in a decentralized manner through different government authorities. For example, in some predominately market-oriented and mixed economies, the state utilizes economic planning in strategic industries such as the aerospace industry.

Another example of this is the utilization of [dirigisme](http://en.wikipedia.org/wiki/Dirigisme), both of which were practiced in France and Great Britain after the Second World War. Swedish public housing models were planned by the government in a similar fashion as [urban planning](http://en.wikipedia.org/wiki/Urban_planning). Mixed economies usually employ macroeconomic planning, while micro-economic affairs are left to the market and price system.

The [People's Republic of China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China) currently has a [socialist market economy](http://en.wikipedia.org/wiki/Socialist_market_economy) in place. Within this system, macroeconomic plans are used as general guidelines and as government goals for the national economy, but the majority of [state-owned enterprises](http://en.wikipedia.org/wiki/Government-owned_corporation) are subject to market forces. This is heavily contrasted to the command economy model of the former Soviet Union.

## Opportunity cost

Opportunity cost is the cost of any activity measured in terms of the value of the next best alternative forgone (that is not chosen). It is the sacrifice related to the second best choice available to someone, or group, who has picked among several [mutually exclusive](http://en.wikipedia.org/wiki/Mutually_exclusive) choices. The opportunity cost is also the cost of the forgone products after making a choice. Opportunity cost is a key concept in [economics](http://en.wikipedia.org/wiki/Economics), and has been described as expressing "the basic relationship between [scarcity](http://en.wikipedia.org/wiki/Scarcity) and [choice](http://en.wikipedia.org/wiki/Utility)". The notion of opportunity cost plays a crucial part in ensuring that scarce resources are used efficiently. Thus, opportunity costs are not restricted to monetary or financial costs: the [real cost](http://en.wikipedia.org/wiki/Real_versus_nominal_value_(economics)) of [output forgone](http://en.wikipedia.org/wiki/Production_possibilities_frontier), lost time, pleasure or any other benefit that provides [utility](http://en.wikipedia.org/wiki/Utility_(economics)) should also be considered opportunity costs.

**Opportunity costs in consumption**

Opportunity cost is assessed in not only monetary or material terms, but also in terms of anything which is of value. For example, a person who desires to watch each of two television programs being broadcast simultaneously, and does not have the means to make a recording of one, can watch only one of the desired programs. Therefore, the opportunity cost of watching *Dallas* could be not enjoying the other program (such as *Dynasty*). If an individual records one program while watching the other, the opportunity cost will be the time that the individual spends watching one program versus the other. In a restaurant situation, the opportunity cost of eating steak could be trying the salmon. The opportunity cost of ordering both meals could be twofold: the extra $20 to buy the second meal, and his reputation with his peers, as he may be thought of as greedy or extravagant for ordering two meals. A family might decide to use a short period of vacation time to visit Disneyland rather than doing household improvements. The opportunity cost of having happier children could therefore be a remodelled bathroom.

In [environmental protection](http://en.wikipedia.org/wiki/Environmental_protection), opportunity cost is also applicable. This has been demonstrated in the legislation that required the carcinogenic aromatics (mainly [reformate](http://en.wikipedia.org/wiki/Reformate)) to be largely eliminated from gasoline. Unfortunately, this required refineries to install equipment at a cost of hundreds of millions of dollars – and pass the cost to the consumer. The absolute number of cancer cases attributed to exposure to gasoline, however, is low, estimated a few cases per year in the U.S. Thus, the decision to require fewer aromatics has been criticized on the grounds of opportunity cost: the hundreds of millions of dollars spent on process redesign could have been spent on other, more fruitful ways of reducing deaths caused by cancer or automobiles. These actions (or strictly, the best one of them) are the opportunity cost of reduction of aromatics in gasoline

The Opportunity Cost of consuming good y, relative to good x (y:x), can be calculated by the price of good y, relative to good x (Py/Px). For example, a movie (good x) costs $10 (Px) and bowling (good y) costs $20 (Py), the opportunity cost of going bowling is 2 movies (Py/Px = 20/10). That is the $20 spent on bowling could have been used to see two movies priced at $10. Conversely the opportunity cost of going to watch a movie is 0.5 (10/20) games of bowling. Units should be specified in the opportunity cost, for example if forgoing 3 party invitations to go out on a date you would not say "I passed on 3 for this date", your date would need to know the units of the good forgone for the statement to make sense.

**Opportunity costs in production**

Opportunity costs may be assessed in the decision-making process of [production](http://en.wikipedia.org/wiki/Production_(economics)). If the workers on a farm can produce either one million pounds of wheat or two million pounds of barley, then the opportunity cost of producing one pound of wheat is the two pounds of barley forgone (assuming the production possibilities frontier is linear). Firms would make rational decisions by weighing the sacrifices involved.

### Explicit costs

Explicit costs are opportunity costs that involve direct monetary payment by producers. The opportunity cost of the [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) not already owned by a producer is the price that the producer has to pay for them. For instance, a firm spends $100 on electrical power consumed; their opportunity cost is $100. The firm has sacrificed $100, which could have been spent on other factors of production.

### Implicit costs

Implicit costs are the opportunity costs that in factors of production that a producer already owns. They are equivalent to what the factors could earn for the firm in alternative uses, either operated within the firm or rent out to other firms. For example, a firm pays $300 a month all year for rent on a warehouse that only holds product for six months each year. The firm could rent the warehouse out for the unused six months, at any price (assuming a year-long lease requirement), and that would be the cost that could be spent on other factors of production.

**Non-monetary opportunity costs**

Opportunity costs are not always monetary units or being able to produce one good over another. The opportunity cost can also be unknown, or spawn a series of infinite sub opportunity costs. For instance, an individual could choose not to ask a girl out on a date, in an attempt to make her more interested by playing hard to get, but the opportunity cost could be that they get completely ignored, which could lead to other opportunity costs.

# II Microeconomics

**Microeconomics** is a branch of [economics](http://en.wikipedia.org/wiki/Economics) that studies the behaviour of individual households and firms in making decisions on the allocation of limited resources. Typically, it applies to markets where goods or services are bought and sold. Microeconomics examines how these decisions and behaviours affect the [supply and demand](http://en.wikipedia.org/wiki/Supply_and_demand) for goods and services, which determines prices, and how prices, in turn, determine the quantity supplied and quantity demanded of goods and services.

This is in contrast to [macroeconomics](http://en.wikipedia.org/wiki/Macroeconomics), which involves the "sum total of economic activity, dealing with the issues of [growth](http://en.wikipedia.org/wiki/Economic_growth), [inflation](http://en.wikipedia.org/wiki/Inflation), and [unemployment](http://en.wikipedia.org/wiki/Unemployment)." Microeconomics also deals with the effects of national economic policies (such as changing [taxation](http://en.wikipedia.org/wiki/Taxation) levels) on the aforementioned aspects of the economy.

One of the goals of microeconomics is to analyze [market](http://en.wikipedia.org/wiki/Market) mechanisms that establish [relative prices](http://en.wikipedia.org/wiki/Relative_price) amongst goods and services and allocation of limited resources amongst many alternative uses. Microeconomics analyzes [market failure](http://en.wikipedia.org/wiki/Market_failure), where markets fail to produce efficient results, and describes the theoretical conditions needed for [perfect competition](http://en.wikipedia.org/wiki/Perfect_competition). Significant fields of study in microeconomics include [general equilibrium](http://en.wikipedia.org/wiki/General_equilibrium), markets under [asymmetric information](http://en.wikipedia.org/wiki/Asymmetric_information), choice under [uncertainty](http://en.wikipedia.org/wiki/Uncertainty) and economic applications of [game theory](http://en.wikipedia.org/wiki/Game_theory). Also considered is the [elasticity](http://en.wikipedia.org/wiki/Elasticity_(economics)) of products within the market system.

## Assumptions and definitions

The theory of [supply and demand](http://en.wikipedia.org/wiki/Supply_and_demand) usually assumes that markets are [perfectly competitive](http://en.wikipedia.org/wiki/Perfect_competition). This implies that there are many buyers and sellers in the market and none of them have the capacity to significantly influence prices of goods and services. In many real-life transactions, the assumption fails because some individual buyers or sellers have the ability to influence prices. Quite often, a sophisticated analysis is required to understand the demand-supply equation of a good model. However, the theory works well in situations meeting these assumptions.

[Mainstream economics](http://en.wikipedia.org/wiki/Mainstream_economics) does not assume [*a priori*](http://en.wikipedia.org/wiki/A_priori_and_a_posteriori_(philosophy)) that markets are preferable to other forms of social organization. In fact, much analysis is devoted to cases where so-called [market failures](http://en.wikipedia.org/wiki/Market_failure) lead to [resource allocation](http://en.wikipedia.org/wiki/Resource_allocation) that is suboptimal by some standard (defence spending is the classic example, profitable to all for use but not directly profitable for anyone to finance). In such cases, [economists](http://en.wikipedia.org/wiki/Economist) may attempt to find policies that will avoid waste, either directly by government control, indirectly by regulation that induces market participants to act in a manner consistent with optimal welfare, or by creating "[missing markets](http://en.wikipedia.org/wiki/Missing_market)" to enable efficient trading where none had previously existed. Market failure in positive economics (microeconomics) is limited in implications without mixing the belief of the economist and his or her theory.

The demand for various commodities by individuals is generally thought of as the outcome of a utility-maximizing process, with each individual trying to maximize their own utility. The interpretation of this relationship between price and quantity demanded of a given good assumes that, given all the other goods and constraints, the set of choices which emerges is that one which makes the consumer happiest.

## Supply and Demand

**Supply and demand** is an [economic model](http://en.wikipedia.org/wiki/Economic_model) of [price determination](http://en.wikipedia.org/wiki/Price_determination) in a [market](http://en.wikipedia.org/wiki/Market). It concludes that in a [competitive market](http://en.wikipedia.org/wiki/Perfect_competition), the [unit price](http://en.wikipedia.org/wiki/Unit_price) for a particular good will vary until it settles at a point where the quantity demanded by consumers (at current price) will equal the quantity supplied by producers (at current price), resulting in an [economic equilibrium](http://en.wikipedia.org/wiki/Economic_equilibrium) of price and quantity.

The four basic laws of supply and demand are:

1. If demand increases and supply remains unchanged, then it leads to higher equilibrium price and higher quantity.
2. If demand decreases and supply remains unchanged, then it leads to lower equilibrium price and lower quantity.
3. If supply increases and demand remains unchanged, then it leads to lower equilibrium price and higher quantity.
4. If supply decreases and demand remains unchanged, then it leads to higher equilibrium price and lower quantity.

## Law of supply

The Law of Supply states that, (all other things unchanged) an increase in price results in an increase in quantity supplied. This means that producers are willing to offer more products for sale on the market at higher prices by increasing production as a way of increasing profits.

## Law of demand

In [economics](http://en.wikipedia.org/wiki/Economics), the **law of demand** is an economic law, which states that [consumers](http://en.wikipedia.org/wiki/Consumer) buy more of a good when its price decreases and less when its price increases ([ceteris paribus](http://en.wikipedia.org/wiki/Ceteris_paribus)).

The greater the amount to be sold, the smaller the price at which it is offered must be, in order for it to find purchasers.

Law of demand states that the amount demanded of a [commodity](http://en.wikipedia.org/wiki/Commodity) and its price are inversely related, other things remaining constant. That is, if the [income](http://en.wikipedia.org/wiki/Income) of the consumer, prices of the related [goods](http://en.wikipedia.org/wiki/Goods), and tastes and preferences of the consumer remain unchanged, the consumer’s demand for the good will move opposite to the movement in the price of the good.

**Assumptions**

Every law will have limitations or exceptions. While expressing the law of demand, the assumption is that other conditions of demand are unchanged. If they remain constant, the inverse relation may not hold well. In other words, it is assumed that the income and tastes of consumers and the prices of other commodities are constant. This law operates when the commodity’s price changes and all other prices and conditions do not change.

The main assumptions are:

* Habits, tastes and fashions remain constant.
* Money, income of the consumer does not change.
* Prices of other goods remain constant.
* The commodity in question has no [substitute](http://en.wikipedia.org/wiki/Substitute_good) or is not in competition by other goods.
* The commodity is a [normal good](http://en.wikipedia.org/wiki/Normal_good) and has no prestige or status value.
* People do not expect changes in the price.
* Price is independent and demand is dependent.

**Exceptions to the law of demand**

Generally, the amount demanded of good increases with a decrease in price of the good and vice versa. In some cases, however, this may not be true. Such situations are explained below.

### Giffen goods

Initially discovered by [Robert Giffen](http://en.wikipedia.org/wiki/Robert_Giffen), economists disagree on the existence of Giffen goods in the market. A Giffen good describes an inferior good that as the price increases demand for the product increases. As an example, during the [Irish Potato Famine](http://en.wikipedia.org/wiki/Great_Famine_(Ireland)) of the 19th century, potatoes were considered a Giffen good. Potatoes were the largest staple in the Irish diet, so as the price rose it had a large impact on income. People responded by cutting out on [luxury goods](http://en.wikipedia.org/wiki/Luxury_good) such as meat and vegetables, and instead bought more potatoes. Therefore, as the price of potatoes increased, so did the demand.

### Commodities which are used as status symbols

Some expensive commodities like diamonds, air conditioned cars, etc., are used as status symbols to display one’s wealth. The more expensive these commodities become, the higher their value as a status symbol and hence, the greater the demand for them. The amount demanded of these commodities increase with an increase in their price and decrease with a decrease in their price. Also known as a [Veblen good](http://en.wikipedia.org/wiki/Veblen_good).

### Expectation of change in the price of commodity

If a household expects the price of a commodity to increase, it may start purchasing a greater amount of the commodity even at the presently increased price. Similarly, if the household expects the price of the commodity to decrease, it may postpone its purchases. Thus, law of demand is violated in such cases. In this case, the demand curve does not slope down from left to right; instead it presents a backward slope from the top right to down left. This curve is known as an exceptional demand curve. Technically, this is not a violation of the law of demand, as it violates the [ceteris paribus](http://en.wikipedia.org/wiki/Ceteris_paribus) condition.

**Law of demand and changes in demand**

The law of demand states that, other things remaining same, the quantity demanded of a good increases when its price falls and vice-versa. Note that demand for goods changes as a consequence of changes in income, tastes etc. Hence, demand may expand or contract and increase or decrease. In this context, let us make a distinction between two different types of changes that affect quantity demanded, viz., expansion and contraction; and increase and decrease.

While stating the law of demand i.e., while treating price as the causative factor, the relevant terms are Expansion and Contraction in demand. When demand is changing due to a price change alone, we should not say increase or decrease but expansion or contraction. If one of the non-price determinants of demand, such as the prices of other goods, income, etc. change & thereby demand changes, the relevant terms are increase and decrease in demand.

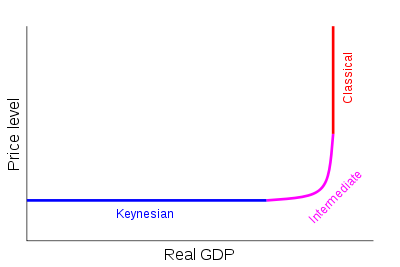
**Limitations:**

* Change in taste or fashion.
* Change in income
* Change in other prices.
* Discovery of substitution.
* Anticipatory change in prices.
* Rare or distinction goods.

There are certain goods which do not follow this law. These include Veblen goods and Giffen goods.

## Aggregate supply

In economics, aggregate supply is the total supply of goods and services that firms in a national economy plan on selling during a specific time period. It is the total amount of goods and services that firms are willing to sell at a given price level in an economy.



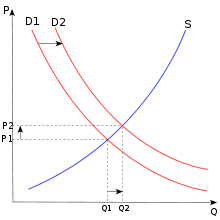
Aggregate supply curve showing the three ranges: Keynesian, Intermediate, and Classical.

**Different scopes**

There are generally three forms of aggregate supply (AS). They are:

* *Short run aggregate supply* (SRAS) — During the short-run, firms possess one fixed factor of production (usually capital). This does not however prevent outward shifts in the SRAS curve, which will result in increased output/real GDP at a given price. Therefore, a positive correlation between price level and output is shown by the SRAS curve.
* *Long run aggregate supply* (LRAS) — over the long run, only capital, labour, and technology affect the LRAS in the macroeconomic model because at this point everything in the economy is assumed to be used optimally. In most situations, the LRAS is viewed as static because it shifts the slowest of the three. The LRAS is shown as perfectly vertical, reflecting economists' belief that changes in aggregate demand (AD) have an only temporary change on the economy's total output.
* *Medium run aggregate supply* (MRAS) — as an interim between SRAS and LRAS, the MRAS form slopes upward and reflects when capital as well as labour can change. More specifically, the Medium run aggregate supply is like this for three theoretical reasons, namely the Sticky-Wage Theory, the Sticky-Price Theory and the Misperception Theory. When graphing an aggregate supply and demand model, the MRAS is generally graphed after aggregate demand (AD), SRAS, and LRAS have been graphed, and then placed so that the equilibria occur at the same point. The MRAS curve is affected by capital, labour, technology, and wage rate.

## Demand curve (aggregate demand in microeconomics)

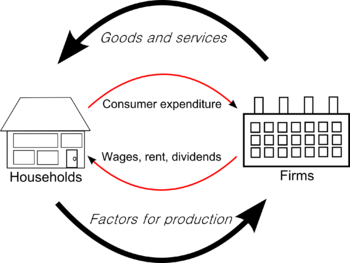
[](http://en.wikipedia.org/wiki/File:Supply-and-demand.svg)

An example of a demand curve shifting

In [economics](http://en.wikipedia.org/wiki/Economics), the demand curve is the [graph](http://en.wikipedia.org/wiki/Graph_of_a_function) depicting the relationship between the price of a certain [commodity](http://en.wikipedia.org/wiki/Commodity) and the amount of it that consumers are willing and able to purchase at that given price. It is a graphic representation of a demand schedule. The demand curve for all consumers together follows from the demand curve of every individual consumer: the individual demands at each price are added together.

Demand curves are used to estimate behaviours in [competitive markets](http://en.wikipedia.org/wiki/Perfect_competition), and are often combined with [supply curves](http://en.wikipedia.org/wiki/Supply_curve) to estimate the [equilibrium price](http://en.wikipedia.org/wiki/Equilibrium_price) (the price at which sellers together are willing to sell the same amount as buyers together are willing to buy, also known as [market clearing](http://en.wikipedia.org/wiki/Market_clearing) price) and the equilibrium quantity (the amount of that good or service that will be produced and bought without surplus/excess supply or shortage/excess demand) of that market. In a monopolistic market, the demand curve facing the monopolist is simply the market demand curve.

## Circular flow of income



In [economics](http://en.wikipedia.org/wiki/Economics), the terms **circular flow of income** or **circular flow** refer to a simple economic model which describes the reciprocal circulation of income between producers and consumers. In the circular flow model, the inter-dependent entities of producer and consumer are referred to as "firms" and "households" respectively and provide each other with factors in order to facilitate the flow of income. Firms provide consumers with goods and services in exchange for consumer expenditure and "[factors of production](http://en.wikipedia.org/wiki/Factors_of_production)" from households. More complete and realistic circular flow models are more complex. They would explicitly include the roles of government and financial markets, along with imports and exports.

Human wants are unlimited and are of recurring nature therefore, production process remains a continuous and demanding process. In this process, household sector provides various factors of production such as land, labour, capital and enterprise to producers who produce by goods and services by co-coordinating them. Producers or business sector in return makes payments in the form of rent, wages, interest and profits to the household sector. Again household sector spends this income to fulfil its wants in the form of consumption expenditure. Business sector supplies those goods and services produced and get income in return of it. Thus expenditure of one sector becomes the income of the other and supply of goods and services by one section of the community becomes demand for the other. This process is unending and forms the circular flow of income, expenditure and production.

A continuous flow of production, income and expenditure is known as circular flow of income. It is circular because it has neither any beginning nor an end. The circular flow of income involves two basic principles:

1. In any exchange process, the seller or producer receives the same amount what buyer or consumer spends.
2. Goods and services flow in one direction and money payment to get these flow in return direction, causes a circular flow.

Circular flows are classified as: Real Flow and Money Flow. Real Flow- In a simple economy, the flow of factor services from households to firms and corresponding flow of goods and services from firms to households s known to be as real flow.

Assume a simple two sector economy- household and firm sectors, in which the households provides factor services to firms, which in return provides goods and services to them as a reward. Since there will be an exchange of goods and services between the two sectors in physical form without involving money, therefore, it is known as real flow.

Money Flow- In a modern two sector economy, money acts as a medium of exchange between goods and factor services. Money flow of income refers to a monetary payment from firms to households for their factor services and in return monetary payments from households to firms against their goods and services. Household sector gets monetary reward for their services in the form of rent, wages, interest, and profit form firm sector and spends it for obtaining various types of goods to satisfy their wants. Money acts as a helping agent in such an exchange.

**Assumptions**

The basic circular flow of income model consists of seven assumptions:

1. The economy consists of two sectors: [households](http://en.wikipedia.org/wiki/Households) and [firms](http://en.wiktionary.org/wiki/firm).
2. Households spend all of their [income](http://en.wikipedia.org/wiki/Income) (Y) on [goods and services](http://en.wikipedia.org/wiki/Goods_and_services) or [consumption](http://en.wikipedia.org/wiki/Consumption_(economics)) (C). There is no saving (S).
3. All output (O) produced by firms is purchased by households through their [expenditure](http://en.wikipedia.org/wiki/Expenditure) (E).
4. There is no [financial](http://en.wikipedia.org/wiki/Financial) sector.
5. There is no [government](http://en.wikipedia.org/wiki/Government) sector.
6. There is no [overseas](http://en.wikipedia.org/wiki/Overseas) sector.
7. It is a closed economy with no exports or imports.

## Price discrimination

**Price discrimination** or **price differentiation**exists when sales of identical goods or services are transacted at different [prices](http://en.wikipedia.org/wiki/Price) from the same provider. In a theoretical market with [perfect information](http://en.wikipedia.org/wiki/Perfect_information), [perfect substitutes](http://en.wikipedia.org/wiki/Substitute_good), and no [transaction costs](http://en.wikipedia.org/wiki/Transaction_cost) or prohibition on secondary exchange (or re-selling) to prevent [arbitrage](http://en.wikipedia.org/wiki/Arbitrage), price discrimination can only be a feature of [monopolistic](http://en.wikipedia.org/wiki/Monopoly) and [oligopolistic](http://en.wikipedia.org/wiki/Oligopoly) [markets](http://en.wikipedia.org/wiki/Market), where [market power](http://en.wikipedia.org/wiki/Market_power) can be exercised. Otherwise, the moment the seller tries to sell the same good at different prices, the buyer at the lower price can arbitrage by selling to the consumer buying at the higher price but with a tiny discount. However, product heterogeneity, [market frictions](http://en.wikipedia.org/wiki/Frictionless_market) or high fixed costs (which make marginal-cost pricing unsustainable in the long run) can allow for some degree of differential pricing to different consumers, even in fully competitive retail or industrial markets. Price discrimination also occurs when the same price is charged to customers which have different supply costs.

The effects of price discrimination on [social efficiency](http://en.wikipedia.org/wiki/Social_efficiency) are unclear; typically such behaviour leads to lower prices for some consumers and higher prices for others. Output can be expanded when price discrimination is very efficient, but output can also decline when discrimination is more effective at extracting surplus from high-valued users than expanding sales to low valued users. Even if output remains constant, price discrimination can reduce efficiency by misallocating output among consumers.

Price discrimination requires [market segmentation](http://en.wikipedia.org/wiki/Market_segmentation) and some means to discourage discount customers from becoming resellers and, by extension, competitors. This usually entails using one or more means of preventing any resale, keeping the different price groups separate, making price comparisons difficult, or restricting pricing information. The boundary set up by the marketer to keep segments separate is referred to as a *rate fence*. Price discrimination is thus very common in services where resale is not possible; an example is student discounts at museums. Price discrimination in [intellectual property](http://en.wikipedia.org/wiki/Intellectual_property) is also enforced by law and by technology. In the market for DVDs, DVD players are designed - by law - with chips to prevent an inexpensive copy of the DVD (for example legally purchased in India) from being used in a higher price market (like the US). The [Digital Millennium Copyright Act](http://en.wikipedia.org/wiki/Digital_Millennium_Copyright_Act) has provisions to outlaw circumventing of such devices to protect the enhanced monopoly profits that copyright holders can obtain from price discrimination against higher price market segments.

Price discrimination can also be seen where the requirement that goods be identical is relaxed. For example, so-called "premium products" (including relatively simple products, such as cappuccino compared to regular coffee) have a price differential that is not explained by the cost of production. Some economists have argued that this is a form of price discrimination exercised by providing a means for consumers to reveal their willingness to pay.

## Budget deficit

A government budget deficit is the amount by which some measure of government revenues falls short of some measure of government spending.

If a government is running a positive budget deficit, it is also said to be running a negative budget surplus.

A **government**[**budget**](http://en.wikipedia.org/wiki/Budget) is a legal document that is often passed by the [legislature](http://en.wikipedia.org/wiki/Legislature), and approved by the [chief executive](http://en.wikipedia.org/wiki/Chief_executive)-or president. For example, only certain types of revenue may be imposed and collected. [Property tax](http://en.wikipedia.org/wiki/Property_tax) is frequently the basis for [municipal](http://en.wikipedia.org/wiki/Municipal) and [county](http://en.wikipedia.org/wiki/County) revenues, while [sales tax](http://en.wikipedia.org/wiki/Sales_tax) and/or [income tax](http://en.wikipedia.org/wiki/Income_tax) are the basis for state revenues, and [income tax](http://en.wikipedia.org/wiki/Income_tax) and [corporate tax](http://en.wikipedia.org/wiki/Corporate_tax) are the basis for national revenues.

The two basic elements of any budget are the [revenues](http://en.wikipedia.org/wiki/Revenues) and [expenses](http://en.wikipedia.org/wiki/Expenses). In the case of the government, [revenues](http://en.wikipedia.org/wiki/Revenue) are derived primarily from [taxes](http://en.wikipedia.org/wiki/Tax). [Government expenses](http://en.wikipedia.org/wiki/Government_expense) include spending on current goods and services, which economists call [government consumption](http://en.wikipedia.org/wiki/National_Income_and_Product_Accounts#Accounting_for_National_Product:_The_Right_Side_of_the_Report); [government investment expenditures](http://en.wikipedia.org/wiki/National_Income_and_Product_Accounts#Accounting_for_National_Product:_The_Right_Side_of_the_Report) such as infrastructure investment or research expenditure; and [transfer payments](http://en.wikipedia.org/wiki/Transfer_payment) like unemployment or retirement benefits.

Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate [scarce](http://en.wikipedia.org/wiki/Scarcity) resources for the best economic use. They also have a political basis wherein different interests push and pull in an attempt to obtain benefits and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses.

## Medium of exchange

Money is the common Medium of Exchange and its most important and essential function is that it is 'measure of value'. Hifzur Rab has shown that market measures or sets value of various goods and services using the medium of exchange/money as 'unit' i.e., standard or the Yard Stick of Measurement of Wealth. There is no other alternative to the mechanism used by market to set or determine or measure value of various goods and services and therefore wealth. Just determination of prices is an essential condition for justice in exchange, efficient allocation of resources, economic growth welfare and justice. Money helps us in gaining power of buying. Thus, this is the most important and essential function of money. To be widely acceptable, a medium of exchange should have stable purchasing power (Value) and therefore it should possess the following characteristics:

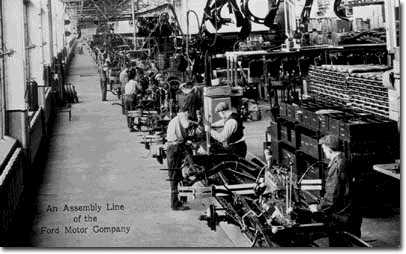
1. value common assets
2. constant utility
3. low cost of preservation
4. transportability
5. divisibility
6. high market value in relation to volume and weight
7. resistance to counterfeiting

To serve as a measure of value, a medium of exchange, be it a good or signal, needs to have constant inherent value of its own or it must be firmly linked to a definite basket of goods and services. It should have constant intrinsic value and stable purchasing power. Gold was long popular as a medium of exchange *and* store of value because it was [inert](http://en.wikipedia.org/wiki/Inert), was convenient to move due to even small amounts of gold having considerable value, had a constant value due to its special physical and chemical properties, and was cherished by men.

Critics of the prevailing system of [fiat money](http://en.wikipedia.org/wiki/Fiat_money) argue that fiat money is the root cause of the continuum of economic crises, since it leads to the dominance of fraud, corruption, and manipulation precisely because it does not satisfy the criteria for a medium of exchange cited above. Specifically, prevailing fiat money is free float and depending upon its supply market finds or sets a value to it that continues to change as the supply of money is changed with respect to the economy's demand. Increasing free floating money supply with respect to needs of the economy reduces the quantity of the basket of the goods and services to which it is linked by the market and that provides it purchasing power. Thus it is not a unit or standard measure of wealth and its manipulation impedes the market mechanism by that it sets/determine just prices. That leads us to a situation where no value-related economic data is just or reliable. On the other hand, [Chartalists](http://en.wikipedia.org/wiki/Chartalism) claim that the ability to manipulate the value of fiat money is an advantage, in that fiscal stimulus is more easily available in times of economic crisis.

## Division of labour

Division of labour is the specialization of cooperative labour in specific, circumscribed tasks and like roles. Historically an increasingly complex division of labour is closely associated with the growth of total output and trade, the rise of capitalism, and of the complexity of industrialization processes. Division of labour was also a method used by the Sumerians to categorize different jobs, and divide them to skilled members of a society.

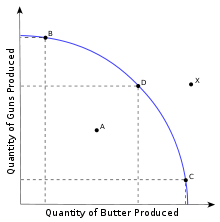


## Production possibilities frontier

In [economics](http://en.wikipedia.org/wiki/Economics), a production–possibility curve (PPC), sometimes called a production–possibility frontier, production-possibility boundary or product transformation curve, is a graph that compares the production rates of two commodities that use the same fixed total of the [factors of production](http://en.wikipedia.org/wiki/Factors_of_production). Graphically bounding the [production set](http://en.wikipedia.org/wiki/Production_set), the PPF curve shows the maximum specified production level of one commodity that results given the production level of the other. By doing so, it defines [productive efficiency](http://en.wikipedia.org/wiki/Productive_efficiency) in the context of that production set. A period of time is specified as well as the production [technologies](http://en.wikipedia.org/wiki/Technology). The commodity compared can either be a [good](http://en.wikipedia.org/wiki/Good_(economics)) or a [service](http://en.wikipedia.org/wiki/Service_(economics)).

PPFs are normally drawn as bulging upwards ("concave") from the origin but can also be represented as bulging downward or linear (straight), depending on a number of factors. A PPF can be used to represent a number of economic concepts, such as [scarcity](http://en.wikipedia.org/wiki/Scarcity) of resources (i.e., the [fundamental economic problem all societies face](http://en.wikipedia.org/wiki/Economic_problem)), [opportunity cost](http://en.wikipedia.org/wiki/Opportunity_cost) (or marginal rate of transformation), productive efficiency, [allocative efficiency](http://en.wikipedia.org/wiki/Allocative_efficiency), and [economies of scale](http://en.wikipedia.org/wiki/Economies_of_scale). In addition, an outward shift of the PPF results from growth of the availability of inputs such as physical capital or labour, or [technological progress](http://en.wikipedia.org/wiki/Technological_progress) in our knowledge of how to transform inputs into outputs. Such a shift allows [economic growth](http://en.wikipedia.org/wiki/Economic_growth) of an economy already operating at its full productivity (on the PPF), which means that more of *both* outputs can be produced during the specified period of time without sacrificing the output of either good. Conversely, the PPF will shift inward if the labour force shrinks, the supply of raw materials is depleted, or a natural disaster decreases the stock of physical capital. However, most economic contractions reflect not that less can be produced, but that the economy has started operating below the frontier—typically both labour and physical capital are underemployed. The combination represented by the point on the PPF where an economy operates shows the priorities or choices of the economy, such as the choice between producing more [capital goods](http://en.wikipedia.org/wiki/Capital_(economics)) and fewer [consumer goods](http://en.wikipedia.org/wiki/Consumer_good), or vice versa.

## Efficiency

[](http://en.wikipedia.org/wiki/File:Production_Possibilities_Frontier_Curve.svg)

[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Production_Possibilities_Frontier_Curve.svg)

An example PPF with illustrative points marked

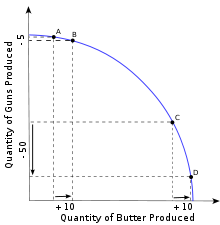
A PPF shows all possible combinations of two goods that can be produced simultaneously during a given period of time, [*ceteris paribus*](http://en.wikipedia.org/wiki/Ceteris_paribus). Commonly, it takes the form of the curve on the right. For an economy to increase the quantity of one good produced, production of the other good must be sacrificed. Here, butter production must be sacrificed in order to produce more guns. PPFs represent how much of the latter must be sacrificed for a given increase in production of the former.

Such a two-good world is a theoretical simplification, due to the difficulty of graphical analysis of multiple goods. If we are interested in one good, a composite score of the other goods can be generated using different techniques. Furthermore, the production model can be generalized using higher-dimensional techniques such as Principal Component Analysis (PCA) and others.

For example, assume that the supply of the economy's [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) does not change over time, in order to produce more butter, producing "guns" needs to be sacrificed. If production is efficient, the economy can choose between combinations (i.e. points) on the PPF: *B* if guns are of interest, *C* if more butter is needed, *D* if an equal mix of butter and guns is required.

In the PPF, all points *on* the curve are points of maximum [productive efficiency](http://en.wikipedia.org/wiki/Productive_efficiency) (i.e., no more output can be achieved from the given inputs); all points inside the frontier (such as *A*) can be produced but productively *inefficient*; all points outside the curve (such as *X*) cannot be produced with the given, existing resources. Not all points on the curve are [Pareto efficient](http://en.wikipedia.org/wiki/Pareto_efficient), however; only in the case where the [marginal rate of transformation](http://en.wikipedia.org/wiki/Production_possibilities_frontier#Marginal_rate_of_transformation) is equal to all consumers' [marginal rate of substitution](http://en.wikipedia.org/wiki/Marginal_rate_of_substitution) and hence equal to the ratio of prices will it be impossible to find any trade that will make no consumer worse off.

## Opportunity cost

[](http://en.wikipedia.org/wiki/File:PPF_opportunity_cost.svg)

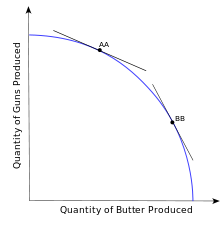
[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:PPF_opportunity_cost.svg)

Increasing butter from A to B carries little opportunity cost, but for C to D the cost is great.

If there is no increase in productive resources, increasing production of a first good entails decreasing production of a second, because resources must be transferred to the first and away from the second. Points along the curve describe the trade-off between the goods. The sacrifice in the production of the second good is called the *opportunity cost* (because increasing production of the first good entails losing the opportunity to produce some amount of the second). Opportunity cost is measured in the number of units of the second good forgone for one or more units of the first good.

In the context of a PPF, opportunity cost is directly related to the shape of the curve (see below). If the shape of the PPF curve is straight-line, the opportunity cost is constant as production of different goods is changing. But, opportunity cost usually will vary depending on the start and end point. In the diagram on the right, producing 10 more packets of butter, at a low level of butter production, costs the opportunity of 5 guns (as with a movement from *A* to *B*). At point C, the economy is already close to its maximum potential butter output. To produce 10 more packets of butter, 50 guns must be sacrificed (as with a movement from *C* to *D*). The ratio of opportunity costs is determined by the *marginal rate of transformation.*

## Marginal rate of transformation

[](http://en.wikipedia.org/wiki/File:PPF_marginal_rate_of_transformation.svg)

[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:PPF_marginal_rate_of_transformation.svg)

Marginal rate of transformation increases when the transition is made from AA to BB.

The slope of the production–possibility frontier (PPF) at any given point is called the marginal rate of transformation (**MRT**). The [slope](http://en.wikipedia.org/wiki/Slope) defines the rate at which [production](http://en.wikipedia.org/wiki/Manufacturing) of one good can be redirected (by re-allocation of production resources) into production of the other. It is also called the (marginal) "opportunity cost" of a commodity, that is, it is the opportunity cost of *X* in terms of *Y* at the margin. It measures how much of good Y is given up for one more unit of good X or vice versa. The shape of a PPF is commonly drawn as concave from the origin to represent increasing opportunity cost with increased output of a good. Thus, MRT increases in absolute size as one moves from the top left of the PPF to the bottom right of the PPF.

The marginal rate of transformation can be expressed in terms of either commodity. The marginal opportunity costs of guns in terms of butter are simply the reciprocal of the marginal opportunity cost of butter in terms of guns. If, for example, the (absolute) slope at point *BB* in the diagram is equal to 2, then, in order to produce one more packet of butter, the production of 2 guns must be sacrificed. If at *AA*, the marginal opportunity cost of butter in terms of guns is equal to 0.25, then, the sacrifice of one gun could produce four packets of butter, and the opportunity cost of guns in terms of butter is 4. Therefore Opportunity cost plays a major role in society,

## Shape

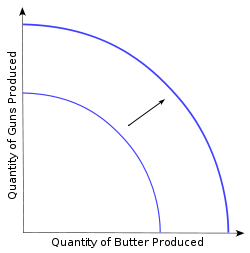
The production–possibility frontier can be constructed from the contract curve in an [Edgeworth production box](http://en.wikipedia.org/wiki/Edgeworth_box) diagram of factor intensity. The example used above (which demonstrates increasing opportunity costs, with a curve concave from the origin) is the most common form of PPF. It represents a disparity in the [factor](http://en.wikipedia.org/wiki/Heckscher-Ohlin_theorem) intensities and technologies of the two production sectors. That is, as an economy specializes more and more into one product (e.g., moving from point *B* to point *D*), the opportunity cost of producing that product increases, because we are using more and more resources that are less efficient in producing it. With increasing production of butter, workers from the gun industry will move to it. At first, the least qualified (or most general) gun workers will be transferred into making more butter, and moving these workers has little impact on the opportunity cost of increasing butter production: the loss in gun production will be small. But the cost of producing successive units of butter will increase as resources that are more and more specialized in gun production are moved into the butter industry.

If opportunity costs are constant, a straight-line (linear) PPF is produced.This case reflects a situation where resources are not specialized and can be substituted for each other with no added cost. Products requiring similar resources (bread and pastry, for instance) will have an almost straight PPF, hence almost constant opportunity costs. More specifically, with constant returns to scale, there are two opportunities for a linear PPF: firstly, if there was only one [factor of production](http://en.wikipedia.org/wiki/Factor_of_production) to consider, or secondly, if the factor intensity ratios in the two sectors were constant at all points on the production-possibilities curve. With varying returns to scale, however, it may not be entirely linear in either case.

With [economies of scale](http://en.wikipedia.org/wiki/Economies_of_scale), the PPF would appear inward, with opportunity costs falling as more are produced of each respective product. Specialization in producing successive units of a good determines its opportunity cost (say from [mass production](http://en.wikipedia.org/wiki/Mass_production) methods or [specialization of labour](http://en.wikipedia.org/wiki/Specialization_of_labor)).

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| --- | --- | --- | --- | --- |
| [http://upload.wikimedia.org/wikipedia/commons/thumb/4/4c/PPF_opportunity_cost.svg/250px-PPF_opportunity_cost.svg.png](http://en.wikipedia.org/wiki/File:PPF_opportunity_cost.svg) |  | [http://upload.wikimedia.org/wikipedia/commons/thumb/6/63/PPF_opportunity_cost_straight.svg/250px-PPF_opportunity_cost_straight.svg.png](http://en.wikipedia.org/wiki/File:PPF_opportunity_cost_straight.svg) |  | [http://upload.wikimedia.org/wikipedia/commons/thumb/9/9c/PPF_opportunity_cost_inverted.svg/250px-PPF_opportunity_cost_inverted.svg.png](http://en.wikipedia.org/wiki/File:PPF_opportunity_cost_inverted.svg) |
| A common PPF: increasing opportunity cost |  | A straight line PPF: constant opportunity cost |  | An inverted PPF: decreasing opportunity cost |

## Position

[](http://en.wikipedia.org/wiki/File:PPF_expansion.svg)

[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:PPF_expansion.svg)

An unbiased expansion in a PPF

The two main determinants of the position of the PPF at any given time are the state of [technology](http://en.wikipedia.org/wiki/Technology) and management expertise (which are reflected in the available [production functions](http://en.wikipedia.org/wiki/Production_function)) and the available quantities and [productivity](http://en.wikipedia.org/wiki/Productivity) of [factors of production](http://en.wikipedia.org/wiki/Factors_of_production). Only points on or within a PPF are actually possible to achieve in the short run. In the long run, if technology improves or if the productivity or supply of factors of production increases, the economy's capacity to produce both goods increases, i.e., [economic growth](http://en.wikipedia.org/wiki/Economic_growth) occurs. This increase is shown by a shift of the production-possibility frontier to the right. Conversely, a natural, military or ecological disaster might move the PPF to the left, in response to a reduction in an economy's productivity. Thus all points on or within the curve are part of the [production set](http://en.wikipedia.org/wiki/Production_set), i.e., combinations of goods that the economy could potentially produce.

If the two production goods depicted are [capital](http://en.wikipedia.org/wiki/Capital_(economics)) [investment](http://en.wikipedia.org/wiki/Investment#In_economics_or_macroeconomics) (to increase future production possibilities) or current consumption goods, the PPF can represent, how the higher investment this year, the more the PPF would shift out in following years. It can also represent how a technological progress that more favors production possibilities of one good, say Guns, shifts the PPF outwards more along the Gun axis, "biasing" production possibilities in that direction. Similarly, if one good makes more use of say capital and if capital grows faster than other factors, growth possibilities might be biased in favor of the capital-intensive good.

## Other applications

In [microeconomics](http://en.wikipedia.org/wiki/Microeconomics), the PPF shows the options open to an individual, [household](http://en.wikipedia.org/wiki/Household_production_function), or firm in a two-good world. By definition, each point on the curve is productively efficient, but, given the nature of [market demand](http://en.wikipedia.org/wiki/Supply_and_demand), some points will be more [profitable](http://en.wikipedia.org/wiki/Profit_(accounting)) than others. Equilibrium for a firm will be the combination of outputs on the PPF that is most profitable.

From a [macroeconomic](http://en.wikipedia.org/wiki/Macroeconomics) perspective, the PPF illustrates the production possibilities available to a nation or [economy](http://en.wikipedia.org/wiki/Economy) during a given period of time for broad categories of output. However, an economy may achieve [productive efficiency](http://en.wikipedia.org/wiki/Productive_efficiency) without necessarily being [allocatively efficient](http://en.wikipedia.org/wiki/Allocative_efficiency). Market failure (such as imperfect competition or externalities) and some institutions of social decision-making (such as government and tradition) may lead to the wrong combination of goods being produced (hence the wrong mix of resources being allocated between producing the two goods) compared to what consumers would prefer, given what is feasible on the PPF.

# III Macroeconomics

**Macroeconomics** is a branch of [economics](http://en.wikipedia.org/wiki/Economics) dealing with the performance, structure, behaviour, and decision-making of the whole [economy](http://en.wikipedia.org/wiki/Economy). This includes national, regional, and global economies. With [microeconomics](http://en.wikipedia.org/wiki/Microeconomics), macroeconomics is one of the two most general fields in [economics](http://en.wikipedia.org/wiki/Economics).

Macroeconomists study aggregated indicators such as [GDP](http://en.wikipedia.org/wiki/Gross_domestic_product), [unemployment rates](http://en.wikipedia.org/wiki/Unemployment#Measurement), and [price indices](http://en.wikipedia.org/wiki/Price_index) to understand how the whole economy functions. Macroeconomists develop models that explain the relationship between such factors as [national income](http://en.wikipedia.org/wiki/National_income), [output](http://en.wikipedia.org/wiki/Output_(economics)), [consumption](http://en.wikipedia.org/wiki/Consumption_(economics)), [unemployment](http://en.wikipedia.org/wiki/Unemployment), [inflation](http://en.wikipedia.org/wiki/Inflation), [savings](http://en.wikipedia.org/wiki/Savings), [investment](http://en.wikipedia.org/wiki/Investment), [international trade](http://en.wikipedia.org/wiki/International_trade) and [international finance](http://en.wikipedia.org/wiki/International_finance). In contrast, [microeconomics](http://en.wikipedia.org/wiki/Microeconomics) is primarily focused on the actions of individual agents, such as [firms](http://en.wikipedia.org/wiki/Business_entity) and consumers, and how their behaviour determines [prices](http://en.wikipedia.org/wiki/Prices) and quantities in specific markets. While macroeconomics is a broad field of study, there are two areas of research that are emblematic of the discipline: the attempt to understand the causes and consequences of [short-run](http://en.wikipedia.org/wiki/Short-run) fluctuations in national income (the [business cycle](http://en.wikipedia.org/wiki/Business_cycle)), and the attempt to understand the determinants of [long-run](http://en.wikipedia.org/wiki/Long-run) [economic growth](http://en.wikipedia.org/wiki/Economic_growth) (increases in national income). [Macroeconomic models](http://en.wikipedia.org/wiki/Macroeconomic_model) and their forecasts are used by both governments and large corporations to assist in the development and evaluation of [economic policy](http://en.wikipedia.org/wiki/Economic_policy) and business strategy.

## Basic macroeconomic concepts

Macroeconomics encompasses a variety of concepts and variables, but three are central topics for macroeconomic research. Macroeconomic theories usually relate the phenomena of output, unemployment, and inflation. Outside of macroeconomic theory, these topics are also extremely important to all economic agents including workers, consumers, and producers.

### Output and income

National [output](http://en.wikipedia.org/wiki/Output_(economics)) is the total value of everything a country produces in a given time period. Everything that is produced and sold generates income. Therefore, output and income are usually considered equivalent and the two terms are often used interchangeably. Output can be measured as total income, or, it can be viewed from the production side and measured as the total value of [final goods](http://en.wikipedia.org/wiki/Final_goods) and services or the sum of all [value added](http://en.wikipedia.org/wiki/Value_added) in the economy.Macroeconomic output is usually measured by [Gross Domestic Product](http://en.wikipedia.org/wiki/Gross_Domestic_Product) (GDP) or one of the other [national accounts](http://en.wikipedia.org/wiki/National_accounts). Economists interested in long-run increases in output study economic growth. Advances in technology, accumulation of machinery and other [capital](http://en.wikipedia.org/wiki/Capital_(economics)), and better education and [human capital](http://en.wikipedia.org/wiki/Human_capital) all lead to increased economic output overtime. However, output does not always increase consistently. [Business cycles](http://en.wikipedia.org/wiki/Business_cycles) can cause short-term drops in output called [recessions](http://en.wikipedia.org/wiki/Recessions). Economists look for [macroeconomic policies](http://en.wikipedia.org/wiki/Macroeconomic_policies) that prevent economies from slipping into recessions and that lead to faster long-term growth.

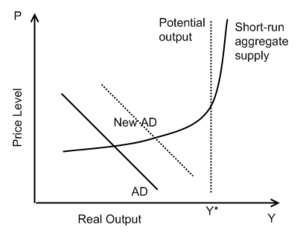
## Aggregate demand

In [macroeconomics](http://en.wikipedia.org/wiki/Macroeconomics), **aggregate demand** (**AD**) is the total demand for final goods and services in the economy (Y) at a given time and [price level](http://en.wikipedia.org/wiki/Price_level).It is the amount of goods and services in the economy that will be purchased at all possible price levels. This is the demand for the [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) of a country when [inventory](http://en.wikipedia.org/wiki/Inventory) levels are static. It is often called [effective demand](http://en.wikipedia.org/wiki/Effective_demand), though at other times this term is distinguished.

It is often cited that the aggregate demand curve is downward sloping because at lower price levels a greater quantity is demanded. While this is correct at the microeconomic, single good level, at the aggregate level this is incorrect. The aggregate demand curve is in fact downward sloping as a result of three distinct effects: [Pigou's wealth effect](http://en.wikipedia.org/wiki/Pigou_effect), [the Keynes' interest rate effect](http://en.wikipedia.org/wiki/Keynes_effect) and the [Mundell-Fleming exchange-rate effect](http://en.wikipedia.org/wiki/Mundell%E2%80%93Fleming_model).

The **AD-AS** or **Aggregate Demand-Aggregate Supply model** is a [macroeconomic model](http://en.wikipedia.org/wiki/Macroeconomic_model) that explains [price level](http://en.wikipedia.org/wiki/Price_level) and [output](http://en.wikipedia.org/wiki/Output_(economics)) through the relationship of [aggregate demand](http://en.wikipedia.org/wiki/Aggregate_demand) and [aggregate supply](http://en.wikipedia.org/wiki/Aggregate_supply). It is based on the theory of [John Maynard Keynes](http://en.wikipedia.org/wiki/John_Maynard_Keynes) presented in his work [*The General Theory of Employment, Interest, and Money*](http://en.wikipedia.org/wiki/The_General_Theory_of_Employment,_Interest,_and_Money). It is one of the primary simplified representations in the modern field of [macroeconomics](http://en.wikipedia.org/wiki/Macroeconomics), and is used by a broad array of economists, from [libertarian](http://en.wikipedia.org/wiki/Libertarianism), [Monetarist](http://en.wikipedia.org/wiki/Monetarist) supporters of [laissez-faire](http://en.wikipedia.org/wiki/Laissez-faire), such as [Milton Friedman](http://en.wikipedia.org/wiki/Milton_Friedman) to [Post-Keynesian](http://en.wikipedia.org/wiki/Post-Keynesian_economics) supporters of [economic interventionism](http://en.wikipedia.org/wiki/Economic_interventionism), such as [Joan Robinson](http://en.wikipedia.org/wiki/Joan_Robinson).

The conventional "aggregate supply and demand" model is, in actuality, a Keynesian visualization that has come to be a widely accepted image of the theory. The Classical supply and demand model, which is largely based on [Say's Law](http://en.wikipedia.org/wiki/Say%27s_Law), or that supply creates its own demand, depicts the aggregate supply curve as being vertical at all times (not just in the long-run)



Aggregate supply/demand graph

## Macroeconomic policies

To try to avoid major economic shocks, such as [The Great Depression](http://en.wikipedia.org/wiki/The_Great_Depression), governments make adjustments through policy changes they hope will stabilize the economy. Governments believe the success of these adjustments is necessary to maintain stability and continue growth. This economic management is achieved through two types of governmental strategies:

## Fiscal policy

In [economics](http://en.wikipedia.org/wiki/Economics) and [political science](http://en.wikipedia.org/wiki/Political_science), **fiscal policy** is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy.[[1]](http://en.wikipedia.org/wiki/Fiscal_policy#cite_note-0) The two main instruments of fiscal policy are government taxation and expenditure. Changes in the level and composition of taxation and government spending can impact the following variables in the economy:

* [Aggregate demand](http://en.wikipedia.org/wiki/Aggregate_demand) and the level of economic activity;
* The pattern of resource allocation;
* The distribution of income.

Fiscal policy refers to the use of the government budget to influence economic activity.

## Monetary policy

**Monetary policy** is the process by which the [monetary authority](http://en.wikipedia.org/wiki/Monetary_authority) of a country controls the [supply of money](http://en.wikipedia.org/wiki/Supply_of_money), often targeting a rate of [interest](http://en.wikipedia.org/wiki/Interest) for the purpose of promoting [economic](http://en.wikipedia.org/wiki/Economy) growth and stability.The official goals usually include relatively stable prices and low [unemployment](http://en.wikipedia.org/wiki/Unemployment). [Monetary theory](http://en.wikipedia.org/wiki/Monetary_economics) provides insight into how to craft optimal monetary policy. It is referred to as either being [expansionary](http://en.wikipedia.org/wiki/Expansionary_monetary_policy) or [contractionary](http://en.wikipedia.org/wiki/Contractionary_monetary_policy), where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contractionary policy expands the money supply more slowly than usual or even shrinks it. Expansionary policy is traditionally used to try to combat [unemployment](http://en.wikipedia.org/wiki/Unemployment) in a [recession](http://en.wikipedia.org/wiki/Recession) by lowering [interest rates](http://en.wikipedia.org/wiki/Interest_rates) in the hope that easy credit will entice businesses into expanding. Contractionary policy is intended to slow [inflation](http://en.wikipedia.org/wiki/Inflation) in hopes of avoiding the resulting distortions and deterioration of asset values.

Monetary policy differs from [fiscal policy](http://en.wikipedia.org/wiki/Fiscal_policy), which refers to [taxation](http://en.wikipedia.org/wiki/Tax), [government spending](http://en.wikipedia.org/wiki/Government_spending), and [associated borrowing](http://en.wikipedia.org/wiki/Government_borrowing).

## Unemployment

The amount of unemployment in an economy is measured by the unemployment rate, the percentage of workers without jobs in the [labour force](http://en.wikipedia.org/wiki/Labor_force). The labour force only includes workers actively looking for jobs. People who are retired, pursuing education, or [discouraged from seeking work](http://en.wikipedia.org/wiki/Discouraged_worker) by a lack of job prospects are excluded from the labour force.

Unemployment can be generally broken down into several types that are related to different causes. Classical unemployment occurs when wages are too high for employers to be willing to hire more workers. Wages may be too high because of minimum wage laws or union activity. Consistent with classical unemployment, frictional unemployment occurs when appropriate job vacancies exist for a worker, but the length of time needed to search for and find the job leads to a period of unemployment.Structural unemployment covers a variety of possible causes of unemployment including a mismatch between workers' skills and the skills required for open jobs.Large amounts of structural unemployment can occur when an economy is transitioning industries and workers find their previous sets of skills are no longer in demand. Structural unemployment is similar to frictional unemployment since both reflect the problem of matching workers with job vacancies, but structural unemployment covers the time needed to acquire new skills not just the short term search process.[ While some types of unemployment may occur regardless of the condition of the economy, cyclical unemployment occurs when growth stagnates. [Okun's law](http://en.wikipedia.org/wiki/Okun%27s_law) represents the empirical relationship between unemployment and economic growth. The original version of Okun's law states that a 3% increase in output would lead to a 1% decrease in unemployment.

## Inflation and deflation

A general price increase across the entire economy is called [inflation](http://en.wikipedia.org/wiki/Inflation). When prices decrease, there is [deflation](http://en.wikipedia.org/wiki/Deflation). Economists measure these changes in prices with [price indexes](http://en.wikipedia.org/wiki/Price_indexes). Inflation can occur when an economy becomes overheated and grows too quickly. Similarly, a declining economy can lead to deflation. [Central bankers](http://en.wikipedia.org/wiki/Central_bank), who control a country's money supply, try to avoid changes in price level by using [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy). Raising interest rates or reducing the supply of money in an economy will reduce inflation. Inflation can lead to increased uncertainty and other negative consequences. Deflation can lower economic output. Central bankers try to stabilize prices to protect economies from the negative consequences of price changes.

Changes in price level may be result of several factors. The [quantity theory of money](http://en.wikipedia.org/wiki/Quantity_theory_of_money) holds that changes in price level are directly related to changes in the [money supply](http://en.wikipedia.org/wiki/Money_supply). Most economists believe that this relationship explains long-run changes in the price level. Short-run fluctuations may also be related to monetary factors, but changes in aggregate demand and aggregate supply can also influence price level. For example, a decrease in demand because of a recession can lead to lower price levels and deflation. A negative supply shock, like an oil crisis, lowers aggregate supply and can cause inflation.

## Diminishing returns

In [economics](http://en.wikipedia.org/wiki/Economics), diminishing returns (also called diminishing marginal returns) is the decrease in the [marginal](http://en.wikipedia.org/wiki/Marginalism) (per-unit) output of a [production](http://en.wikipedia.org/wiki/Production_(economics)) process as the amount of a single [factor of production](http://en.wikipedia.org/wiki/Factors_of_production) is increased, while the amounts of all other factors of production stay constant.

The law of diminishing returns (also law of diminishing marginal returns or law of increasing relative cost) states that in all productive processes, adding more of one factor of production, while holding all others constant, will at some point yield lower per-unit returns. The law of diminishing returns does not imply that adding more of a factor will decrease the *total* production, a condition known as negative returns, though in fact this is common.

For example, the use of [fertilizer](http://en.wikipedia.org/wiki/Fertilizer) improves crop production on farms and in gardens; but at some point, adding more and more fertilizer improves the yield less per unit of fertilizer, and excessive quantities can even reduce the yield. A common sort of example is adding more workers to a job, such as assembling a car on a [factory floor](http://en.wikipedia.org/wiki/Shop_floor). At some point, adding more workers causes problems such as getting in each other's way, or workers frequently find themselves waiting for access to a part. In all of these processes, producing one more unit of output per unit of time will eventually cost increasingly more, due to inputs being used less and less effectively.

The law of diminishing returns is a fundamental principle of economics.It plays a central role in [production theory](http://en.wikipedia.org/wiki/Production_theory_basics).

## Gross domestic product (GDP)

Gross domestic product (GDP) refers to the [market value](http://en.wikipedia.org/wiki/Market_value) of all officially recognized final goods and services produced within a country in a given period. GDP [per capita](http://en.wikipedia.org/wiki/Per_capita) is often considered an indicator of a country's [standard of living](http://en.wikipedia.org/wiki/Standard_of_living); GDP per capita is not a measure of personal income. See [Standard of living and GDP](http://en.wikipedia.org/wiki/Gross_domestic_product#Standard_of_living_and_GDP). Under economic theory, GDP per capita exactly equals the gross domestic income (GDI) per capita.

The **GDP (PPP) per hour worked** is a measure of the [productivity](http://en.wikipedia.org/wiki/Productivity) of a country when not taking into account unemployment or hours worked per week. GDP (PPP) stands for [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) normalized to [purchasing power parities](http://en.wikipedia.org/wiki/Purchasing_power_parity).

## Gross domestic income (GDI)

The *e'* (GDI) is the total income received by all sectors of an economy within a nation. It includes the sum of all wages, profits, and minus subsidies. Since all income is derived from production (including the production of services), the gross domestic income of a country should exactly equal its [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) (GDP). The GDP is a very commonly cited statistic measuring the economic activity of countries, and the GDI is quite uncommon.

## Gross National Product (GNP)

**Gross National Product (GNP)** is the market value of all products and services produced in one year by labour and property supplied by the residents of a country. Unlike [Gross Domestic Product](http://en.wikipedia.org/wiki/Gross_Domestic_Product) (GDP), which defines production based on the geographical location of production, GNP allocates production based on ownership.

GNP does not distinguish between qualitative improvements in the state of the technical arts (e.g., increasing computer processing speeds), and quantitative increases in goods (e.g., number of computers produced), and considers both to be forms of "economic growth".

## GDP vs. GNP

GDP can be contrasted with [gross national product](http://en.wikipedia.org/wiki/Gross_national_product) (GNP) or [gross national income](http://en.wikipedia.org/wiki/Gross_National_Income) (GNI). The difference is that GDP defines its scope according to location, while GNP defines its scope according to ownership. In a global context, [world GDP and world GNP](http://en.wikipedia.org/wiki/Gross_world_product) are, therefore, equivalent terms.

GDP is product produced within a country's borders; GNP is product produced by enterprises owned by a country's citizens. The two would be the same if all of the productive enterprises in a country were owned by its own citizens, and those citizens did not own productive enterprises in any other countries. In practice, however, foreign ownership makes GDP and GNP non-identical. Production within a country's borders, but by an enterprise owned by somebody outside the country, counts as part of its GDP but not its GNP; on the other hand, production by an enterprise located outside the country, but owned by one of its citizens, counts as part of its GNP but not its GDP.

To take the United States as an example, the U.S.'s GNP is the value of output produced by American-owned firms, regardless of where the firms are located. Similarly, if a country becomes increasingly in debt, and spends large amounts of income servicing this debt this will be reflected in a decreased GNI but not a decreased GDP. Similarly, if a country sells off its resources to entities outside their country this will also be reflected over time in decreased GNI, but not decreased GDP. This would make the use of GDP more attractive for politicians in countries with increasing national debt and decreasing assets.

Gross national income (GNI) equals GDP plus income receipts from the rest of the world minus income payments to the rest of the world.

## Recession

In economics, a **recession** is a [business cycle](http://en.wikipedia.org/wiki/Business_cycle) contraction, a general slowdown in economic activity.[Macroeconomic](http://en.wikipedia.org/wiki/Macroeconomics) indicators such as GDP, employment, investment spending, [capacity utilization](http://en.wikipedia.org/wiki/Capacity_utilization), household income, business profits, and inflation fall, while bankruptcies and the [unemployment rate](http://en.wikipedia.org/wiki/Unemployment_rate) rise.

Recessions generally occur when there is a widespread drop in spending, often following an adverse [supply shock](http://en.wikipedia.org/wiki/Supply_shock) or the bursting of an [economic bubble](http://en.wikipedia.org/wiki/Economic_bubble). Governments usually respond to recessions by adopting expansionary [macroeconomic policies](http://en.wikipedia.org/wiki/Macroeconomic_policies), such as [increasing money supply](http://en.wikipedia.org/wiki/Monetary_policy), [increasing government spending and decreasing taxation](http://en.wikipedia.org/wiki/Fiscal_policy).

## Marginal product

In [economics](http://en.wikipedia.org/wiki/Economics) and in particular [neoclassical economics](http://en.wikipedia.org/wiki/Neoclassical_economics), the **marginal product** or **marginal physical product** of an input ([factor of production](http://en.wikipedia.org/wiki/Factor_of_production)) is the extra output that can be produced by using one more unit of the input (for instance, the difference in output when a firm's labour usage is increased from five to six units), assuming that the quantities of no other inputs to production change. The marginal product of a given input can be expressed as

MP =  \frac{\Delta Y}{\Delta X}

Where \Delta X is the change in the firm's use of the input (conventionally a one-unit change) and \Delta Y is the change in quantity of output produced. Note that the quantity Y of the "product" is typically defined ignoring [external costs and benefits](http://en.wikipedia.org/wiki/Externalities).

If the output and the input are infinitely divisible, so the marginal "units" are infinitesimal, the marginal product is the mathematical [derivative](http://en.wikipedia.org/wiki/Derivative) of the [production function](http://en.wikipedia.org/wiki/Production_function) with respect to that input. Suppose a firm's output *Y* is given by the production function Y=F(K,L) where *K* and *L* are inputs to production (say, capital and labour). Then the marginal product of capital (*MPK*) and marginal product of labour (*MPL*) are given by:

MPK=\frac{\partial F}{\partial K}

MPL=\frac{\partial F}{\partial L}

In the "law" of [diminishing marginal returns](http://en.wikipedia.org/wiki/Diminishing_returns), the marginal product of one input is assumed to fall as one considers higher and higher starting points for the quantity of that input. The marginal product of labour is the slope of the [total product](http://en.wikipedia.org/wiki/Total_product) curve, which is the production function plotted against labour usage for a fixed level of usage of the capital input.

In the neoclassical theory of [competitive markets](http://en.wikipedia.org/wiki/Perfect_competition), the [marginal product of labour](http://en.wikipedia.org/wiki/Marginal_product_of_labor) equals the [real](http://en.wikipedia.org/wiki/Real_vs._nominal_in_economics) wage. In aggregate models of perfect competition, in which a single good is produced and that good is used both in consumption and as a capital good, the [marginal product of capital](http://en.wikipedia.org/wiki/Marginal_product_of_capital) equals its [rate of return](http://en.wikipedia.org/wiki/Rate_of_profit). As was shown in the [Cambridge capital controversy](http://en.wikipedia.org/wiki/Cambridge_capital_controversy), this proposition about the marginal product of capital cannot generally be sustained in multi commodity models in which capital and consumption goods are distinguished.

## Marginal cost

In [economics](http://en.wikipedia.org/wiki/Economics) and [finance](http://en.wikipedia.org/wiki/Finance), **marginal cost** is the change in [total cost](http://en.wikipedia.org/wiki/Total_cost) that arises when the quantity produced changes by one unit. That is, it is the cost of producing one more unit of a good.[[1]](http://en.wikipedia.org/wiki/Marginal_cost#cite_note-0) If the good being produced is infinitely divisible, so the size of a marginal cost will change with volume, as a non-linear and non-proportional cost function includes the following:

* variable terms dependent to volume,
* constant terms independent to volume and occurring with the respective lot size,
* jump fix cost increase or decrease dependent to steps of volume increase.

In practice the above definition of marginal cost as the change in total cost as a result of an increase in output of one unit is inconsistent with the calculation of marginal cost as MC=dTC/dQ for virtually all non-linear functions. This is as the definition MC=dTC/dQ finds the tangent to the total cost curve at the point q which assumes that costs increase at the same rate as they were at q. A new definition may be useful for marginal unit cost (MUC) using the current definition of the change in total cost as a result of an increase of one unit of output defined as: TC(q+1)-TC(q) and re-defining marginal cost to be the change in total as a result of an infinitesimally small increase in q which is consistent with its use in economic literature and can be calculated as dTC/dQ.

In general terms, marginal cost at each level of production includes any additional costs required to produce the next unit. If producing additional vehicles requires, for example, building a new factory, the marginal cost of those *extra* vehicles includes the cost of the new factory. In practice, the analysis is segregated into short and long-run cases, and over the longest run, all costs are marginal. At each level of production and time period being considered, marginal costs include all costs that vary with the level of production, and other costs are considered fixed costs.

If the cost function is differentiable joining, the marginal cost is the cost of the next unit produced referring to the basic volume.

MC=\frac{dTC}{dQ}

If the cost function is not differentiable, the marginal cost can be expressed as follows.

MC=\frac{\Delta TC}{\Delta Q}

A number of other factors can affect marginal cost and its applicability to real world problems. Some of these may be considered market failures. These may include [information asymmetries](http://en.wikipedia.org/wiki/Information_asymmetry), the presence of negative or positive [externalities](http://en.wikipedia.org/wiki/Externality), [transaction costs](http://en.wikipedia.org/wiki/Transaction_costs), [price discrimination](http://en.wikipedia.org/wiki/Price_discrimination) and others.

## Economies of scale

Economies of scale is a concept that applies to the long run, a span of time in which all inputs can be varied by the firm so that there are no fixed inputs or fixed costs. Production may be subject to [economies of scale](http://en.wikipedia.org/wiki/Economies_of_scale) (or [diseconomies of scale](http://en.wikipedia.org/wiki/Diseconomies_of_scale)). Economies of scale are said to exist if an additional unit of output can be produced for less than the average of all previous units— that is, if long-run marginal cost is below long-run average cost, so the latter is falling. Conversely, there may be levels of production where marginal cost is higher than average cost, and average cost is an increasing function of output. For this generic case, minimum average cost occurs at the point where average cost and marginal cost are equal (when plotted, the marginal cost curve intersects the average cost curve from below); this point will *not* be at the minimum for marginal cost if fixed costs are greater than zero.

## Aggregation problem

An *aggregate* in [economics](http://en.wikipedia.org/wiki/Economics) is a summary measure describing a market or economy. The **aggregation problem** refers to the difficulty of treating an [empirical](http://en.wikipedia.org/wiki/Empirical) or theoretical aggregate as if it reacted like a less-aggregated measure, say, about behaviour of an individual [agent](http://en.wikipedia.org/wiki/Agent_(economics)) as described in general [microeconomic theory](http://en.wikipedia.org/wiki/Microeconomic_theory).Examples of aggregates in micro- and [macroeconomics](http://en.wikipedia.org/wiki/Macroeconomics) relative to less aggregated counterparts are:

* food vs. apples
* the [price level](http://en.wikipedia.org/wiki/Price_level) and [real GDP](http://en.wikipedia.org/wiki/Real_GDP) vs. the price and quantity of apples
* the [capital stock](http://en.wikipedia.org/wiki/Capital_stock) for the economy vs. the value of computers of a certain type and the value of [steam shovels](http://en.wikipedia.org/wiki/Steam_shovel)
* the [money supply](http://en.wikipedia.org/wiki/Money_supply) vs. paper currency
* the general [unemployment rate](http://en.wikipedia.org/wiki/Unemployment_rate#Measuring_unemployment) vs. the unemployment rate of civil engineers.

Standard theory uses simple assumptions to derive general, and commonly accepted, results such as the [law of demand](http://en.wikipedia.org/wiki/Law_of_demand) to explain market behaviour. An example is the abstraction of a [composite good](http://en.wikipedia.org/wiki/Composite_good). It considers the price of one good changing proportionately to the composite good, that is, all other goods. If this assumption is violated and the agents are subject to aggregated [utility functions](http://en.wikipedia.org/wiki/Utility_function), restrictions on the latter are necessary to yield the law of demand. The aggregation problem emphasizes:

* how broad such restrictions are in microeconomics
* that use of broad factor inputs ('labour' and 'capital'), real 'output', and 'investment', as if there was only a single such aggregate is without a solid foundation for rigorously deriving analytical results.

[Franklin Fisher](http://en.wikipedia.org/wiki/Franklin_Fisher) notes that this has not dissuaded macroeconomists from continuing to use such concepts.

## Trade

**Trade** is the transfer of [ownership](http://en.wikipedia.org/wiki/Ownership) of goods and services from one person or entity to another by getting something in exchange from the [buyer](http://en.wikipedia.org/wiki/Buyer). Trade is sometimes loosely called [commerce](http://en.wikipedia.org/wiki/Commerce) or [financial transaction](http://en.wikipedia.org/wiki/Financial_transaction) or barter. A network that allows trade is called a [market](http://en.wikipedia.org/wiki/Market). The original form of trade was [barter](http://en.wikipedia.org/wiki/Barter_(economics)), the direct exchange of goods and services. Later one side of the barter were the metals, precious metals (poles, coins), bill, paper money. Modern traders instead generally negotiate through a medium of exchange, such as [money](http://en.wikipedia.org/wiki/Money). As a result, **buying** can be separated from **selling**, or [earning](http://en.wikipedia.org/wiki/Earning). The invention of money (and later credit, paper money and non-physical money) greatly simplified and promoted trade. Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade.

Trade exists for man due to specialization and division of labour, most people concentrate on a small aspect of production, trading for other products. Trade exists between regions because different regions have a [comparative advantage](http://en.wikipedia.org/wiki/Comparative_advantage) in the production of some tradable commodity, or because different regions' size allows for the benefits of [mass production](http://en.wikipedia.org/wiki/Mass_production). As such, trade at [market prices](http://en.wikipedia.org/wiki/Market_price) between locations benefits both locations.

[Retail](http://en.wikipedia.org/wiki/Retail) trade consists of the [sale](http://en.wikipedia.org/wiki/Sales) of goods or merchandise from a very fixed location, such as a [department store](http://en.wikipedia.org/wiki/Department_store), [boutique](http://en.wikipedia.org/wiki/Boutique) or [kiosk](http://en.wikipedia.org/wiki/Kiosk), or by [mail](http://en.wikipedia.org/wiki/Mail), in small or individual lots for direct [consumption](http://en.wikipedia.org/wiki/Consumption_(economics)) by the purchaser.[Wholesale](http://en.wikipedia.org/wiki/Wholesale) trade is defined as the sale of goods or [merchandise](http://en.wikipedia.org/wiki/Merchandise) to [retailers](http://en.wikipedia.org/wiki/Retailer), to industrial, commercial, institutional, or other professional [business](http://en.wikipedia.org/wiki/Business) users, or to other wholesalers and related subordinated services.

Trading can also refer to the action performed by [traders](http://en.wikipedia.org/wiki/Trader_(finance)) and other market agents in the [financial markets](http://en.wikipedia.org/wiki/Financial_markets).

## Currency

In [economics](http://en.wikipedia.org/wiki/Economics), **currency** refers to a generally accepted [medium of exchange](http://en.wikipedia.org/wiki/Medium_of_exchange). These are usually the [coins](http://en.wikipedia.org/wiki/Coins) and [banknotes](http://en.wikipedia.org/wiki/Banknotes) of a particular government, which comprise the physical aspects of a nation's [money supply](http://en.wikipedia.org/wiki/Money_supply). The other part of a nation's money supply consists of [bank deposits](http://en.wikipedia.org/wiki/Bank_deposits) (sometimes called [deposit money](http://en.wikipedia.org/wiki/Deposit_money)), ownership of which can be transferred by means of [cheques](http://en.wikipedia.org/wiki/Cheque), [debit cards](http://en.wikipedia.org/wiki/Debit_card), or other forms of money transfer. Deposit money and currency are [money](http://en.wikipedia.org/wiki/Money) in the sense that both are acceptable as a means of payment.

Direct exchange of [commodities](http://en.wikipedia.org/wiki/Commodity_money) such as precious metals, furs, grain, etc. in early human [societies](http://en.wikipedia.org/wiki/Society) lead to the first money proper in early civilizations. Until modern times, precious metals such as [gold](http://en.wikipedia.org/wiki/Gold) or [silver](http://en.wikipedia.org/wiki/Silver) typically were used to retain the commodity nature of the store of value function of money. However, nearly all contemporary monetary systems are based on [fiat money](http://en.wikipedia.org/wiki/Fiat_money). Usually, a government declares its currency (including notes and coins issued by the [central bank](http://en.wikipedia.org/wiki/Central_bank)) to be [legal tender](http://en.wikipedia.org/wiki/Legal_tender), making it unlawful to not accept it as a means of repayment for all debts, public and private. In major modern economies such as those of the United States or the Euro Zone, most money is electronic, but the "currency" of these polities may, depending on context, include all money or just [specie](http://en.wikipedia.org/wiki/Specie).

# IV Organization of Industries

## Monopoly

A **monopoly**  exists when a specific person or enterprise is the only supplier of a particular commodity (this contrasts with a [monopsony](http://en.wikipedia.org/wiki/Monopsony) which relates to a single entity's control of a [market](http://en.wikipedia.org/wiki/Market) to purchase a good or service, and with [oligopoly](http://en.wikipedia.org/wiki/Oligopoly) which consists of a few entities dominating an [industry](http://en.wikipedia.org/wiki/Industry))Monopolies are thus characterized by a lack of economic [competition](http://en.wikipedia.org/wiki/Competition) to produce the [good](http://en.wikipedia.org/wiki/Good_(economics)) or [service](http://en.wikipedia.org/wiki/Service_(economics)) and a lack of viable [substitute goods](http://en.wikipedia.org/wiki/Substitute_good). The verb "monopolize" refers to the *process* by which a company gains the ability to raise prices or exclude competitors. In economics, a monopoly is a single seller. In law, a monopoly is business entity that has significant market power, that is, the power, to charge high prices.Although monopolies may be big businesses, size is not a characteristic of a monopoly. A small business may still have the power to raise prices in a small industry (or market).

A monopoly is distinguished from a monopsony, in which there is only one *buyer* of a product or service; a monopoly may also have monopsony control of a sector of a market. Likewise, a monopoly should be distinguished from a [cartel](http://en.wikipedia.org/wiki/Cartel) (a form of oligopoly), in which several providers act together to coordinate services, prices or sale of goods. Monopolies, monopsonies and oligopolies are all situations such that one or a few of the entities have [market power](http://en.wikipedia.org/wiki/Market_power) and therefore interact with their customers (monopoly), suppliers (monopsony) and the other companies (oligopoly) in a [game theoretic](http://en.wikipedia.org/wiki/Game_theory) manner – meaning that expectations about their behaviour affects other players' choice of strategy and vice versa. This is to be contrasted with the model of [perfect competition](http://en.wikipedia.org/wiki/Perfect_competition) in which companies are "[price takers](http://en.wikipedia.org/wiki/Price_takers)" and do not have market power.

When not coerced legally to do otherwise, monopolies typically maximize their profit by producing fewer goods and selling them at higher prices than would be the case for perfect competition. (See also [Bertrand](http://en.wikipedia.org/wiki/Bertrand_competition), [Cournot](http://en.wikipedia.org/wiki/Cournot_competition) or [Stackelberg](http://en.wikipedia.org/wiki/Stackelberg_competition) equilibria, market power, [market share](http://en.wikipedia.org/wiki/Market_share), [market concentration](http://en.wikipedia.org/wiki/Market_concentration), [Monopoly profit](http://en.wikipedia.org/wiki/Monopoly_profit), [industrial economics](http://en.wikipedia.org/wiki/Industrial_economics)). Sometimes governments decide legally that a given company is a monopoly that doesn't serve the best interests of the market and/or consumers. Governments may force such companies to divide into smaller independent corporations as was the case of [United States v. AT&T](http://en.wikipedia.org/wiki/United_States_v._AT%26T), or alter its behaviour as was the case of [United States v. Microsoft](http://en.wikipedia.org/wiki/United_States_v._Microsoft), to protect consumers.

Monopolies can be established by a government, form [naturally](http://en.wikipedia.org/wiki/Natural_monopoly), or form by mergers. A monopoly is said to be [coercive](http://en.wikipedia.org/wiki/Coercive_monopoly) when the monopoly actively prohibits competitors by using practices (such as underselling) which derive from its market or political influence (see [Chainstore paradox](http://en.wikipedia.org/wiki/Chainstore_paradox)). There is often debate of whether market restrictions are in the best long-term interest of present and future consumers.

In many jurisdictions, [competition laws](http://en.wikipedia.org/wiki/Competition_law) restrict monopolies. Holding a dominant position or a monopoly of a market is not illegal in it, however certain categories of behaviour can, when a business is dominant, be considered abusive and therefore incur legal sanctions. A [government-granted monopoly](http://en.wikipedia.org/wiki/Government-granted_monopoly) or *legal monopoly*, by contrast, is sanctioned by the state, often to provide an incentive to invest in a risky venture or enrich a domestic [interest group](http://en.wikipedia.org/wiki/Advocacy_group). [Patents](http://en.wikipedia.org/wiki/Patent), [copyright](http://en.wikipedia.org/wiki/Copyright), and [trademarks](http://en.wikipedia.org/wiki/Trademark) are sometimes used as examples of government granted monopolies, but they rarely provide market power. The government may also reserve the venture for itself, thus forming a [government monopoly](http://en.wikipedia.org/wiki/Government_monopoly).

## Market structures

In economics, the idea of monopoly is important for the study of [market structures](http://en.wikipedia.org/wiki/Market_structure), which directly concerns normative aspects of economic competition, and provides the basis for topics such as [industrial organization](http://en.wikipedia.org/wiki/Industrial_organization) and [economics of regulation](http://en.wikipedia.org/wiki/Regulatory_economics). There are four basic types of market structures by traditional economic analysis: perfect competition, monopolistic competition, oligopoly and monopoly. A monopoly is a market structure in which a single supplier produces and sells a given product. If there is a single seller in a certain industry and there are not any close substitutes for the product, then the market structure is that of a "pure monopoly". Sometimes, there are many sellers in an industry and/or there exist many close substitutes for the goods being produced, but nevertheless companies retain some market power. This is termed [monopolistic competition](http://en.wikipedia.org/wiki/Monopolistic_competition), whereas by oligopoly the companies interact strategically.

In general, the main results from this theory compare price-fixing methods across market structures, analyze the effect of a certain structure on welfare, and vary technological/demand assumptions in order to assess the consequences for an abstract model of society. Most economic textbooks follow the practice of carefully explaining the *perfect competition* model, only because of its usefulness to understand "departures" from it (the so-called *imperfect competition* models).

The boundaries of what constitutes a market and what doesn't are relevant distinctions to make in economic analysis. In a general equilibrium context, a good is a specific concept entangling geographical and time-related characteristics. Most studies of market structure relax a little their definition of a good, allowing for more flexibility at the identification of substitute-goods. Therefore, one can find an economic analysis of the market of *grapes in Russia*, for example, which is not a market in the strict sense of general equilibrium theory monopoly.

## Characteristics

* **Profit Maximiser**: Maximizes profits.
* **Price Maker**: Decides the price of the good or product to be sold.
* **High Barriers to Entry**: Other sellers are unable to enter the market of the monopoly.
* **Single seller:** In a monopoly there is one seller of the good which produces all the output. Therefore, the whole market is being served by a single company, and for practical purposes, the company is the same as the industry.
* **Price Discrimination**: A monopolist can change the price and quality of the product. He sells more quantities charging fewer prices for the product in a very elastic market and sells less quantities charging high price in a less elastic market.

## Sources of monopoly power

Monopolies derive their market power from barriers to entry – circumstances that prevent or greatly impede a potential competitor's ability to compete in a market. There are three major types of barriers to entry; economic, legal and deliberate.

* **Economic barriers**: Economic barriers include economies of scale, capital requirements, cost advantages and technological superiority.

**Economies of scale**: Monopolies are characterized by decreasing costs for a relatively large range of production.Decreasing costs coupled with large initial costs give monopolies an advantage over would-be competitors. Monopolies are often in a position to reduce prices below a new entrant's operating costs and thereby prevent them from continuing to compete.  Furthermore, the size of the industry relative to the [minimum efficient scale](http://en.wikipedia.org/wiki/Minimum_efficient_scale) may limit the number of companies that can effectively compete within the industry. If for example the industry is large enough to support one company of minimum efficient scale then other companies entering the industry will operate at a size that is less than MES, meaning that these companies cannot produce at an average cost that is competitive with the dominant company. Finally, if long-term average cost is constantly decreasing, the least cost method to provide a good or service is by a single company.

**Capital requirements**: Production processes that require large investments of capital, or large research and development costs or substantial sunk costs limit the number of companies in an industry.Large fixed costs also make it difficult for a small company to enter an industry and expand.

**Technological superiority**: A monopoly may be better able to acquire, integrate and use the best possible technology in producing its goods while entrants do not have the size or finances to use the best available technology.One large company can sometimes produce goods cheaper than several small companies.

**No substitute goods:** A monopoly sells a good for which there is no close substitute. The absence of substitutes makes the demand for the good relatively inelastic enabling monopolies to extract positive profits.

**Control of natural resources**: A prime source of monopoly power is the control of resources that are critical to the production of a final good.

**Network externalities**: The use of a product by a person can affect the value of that product to other people. This is the network effect. There is a direct relationship between the proportion of people using a product and the demand for that product. In other words the more people who are using a product the greater the probability of any individual starting to use the product. This effect accounts for fads and fashion trends. It also can play a crucial role in the development or acquisition of market power. The most famous current example is the market dominance of the Microsoft operating system in personal computers.

* **Legal barriers:** Legal rights can provide opportunity to monopolise the market of a good. Intellectual property rights, including patents and copyrights, give a monopolist exclusive control of the production and selling of certain goods. Property rights may give a company exclusive control of the materials necessary to produce a good.
* **Deliberate actions:** A company wanting to monopolise a market may engage in various types of deliberate action to exclude competitors or eliminate competition. Such actions include collusion, lobbying governmental authorities, and force (see [anti-competitive practices](http://en.wikipedia.org/wiki/Anti-competitive_practices)).

In addition to barriers to entry and competition, barriers to exit may be a source of market power. Barriers to exit are market conditions that make it difficult or expensive for a company to end its involvement with a market. Great liquidation costs are a primary barrier for exiting. Market exit and shutdown are separate events. The decision whether to shut down or operate is not affected by exit barriers. A company will shut down if price falls below minimum average variable costs.

## Oligopoly

An **oligopoly** is a [market form](http://en.wikipedia.org/wiki/Market_form) in which a [market](http://en.wikipedia.org/wiki/Market) or [industry](http://en.wikipedia.org/wiki/Industry) is dominated by a small number of sellers (oligopolists). Because there are few sellers, each oligopolist is likely to be aware of the actions of the others. The decisions of one firm influence, and are influenced by, the decisions of other firms. [Strategic planning](http://en.wikipedia.org/wiki/Strategic_planning) by oligopolists needs to take into account the likely responses of the other market participants.

Oligopoly is a common market form. As a quantitative description of oligopoly, the four-firm [concentration ratio](http://en.wikipedia.org/wiki/Concentration_ratio) is often utilized. This measure expresses the market share of the four largest firms in an industry as a percentage. For example, as of fourth quarter 2008, Verizon, AT&T, Sprint, Nextel, and T-Mobile together control 89% of the US cellular phone market.

Oligopolistic [competition](http://en.wikipedia.org/wiki/Competition) can give rise to a wide range of different outcomes. In some situations, the firms may employ restrictive trade practices ([collusion](http://en.wikipedia.org/wiki/Collusion), market sharing etc.) to raise prices and restrict production in much the same way as a [monopoly](http://en.wikipedia.org/wiki/Monopoly). Where there is a formal agreement for such collusion, this is known as a [cartel](http://en.wikipedia.org/wiki/Cartel). A primary example of such a cartel is [OPEC](http://en.wikipedia.org/wiki/OPEC) which has a profound influence on the international price of oil.

Firms often collude in an attempt to stabilize unstable markets, so as to reduce the risks inherent in these markets for investment and product development. There are legal restrictions on such collusion in most countries. There does not have to be a formal agreement for collusion to take place (although for the act to be illegal there must be actual communication between companies)–for example, in some industries there may be an acknowledged market leader which informally sets prices to which other producers respond, known as [price leadership](http://en.wikipedia.org/wiki/Price_leadership).

In other situations, competition between sellers in an oligopoly can be fierce, with relatively low prices and high production. This could lead to an efficient outcome approaching [perfect competition](http://en.wikipedia.org/wiki/Perfect_competition). The competition in an oligopoly can be greater when there are more firms in an industry than if; for example, the firms were only regionally based and did not compete directly with each other.

## Characteristics

**Profit maximization conditions**: An oligopoly maximizes profits by producing where marginal revenue equals marginal costs.

**Ability to set price**: Oligopolies are price setters rather than price takers.

**Entry and exit**: Barriers to entry are high. The most important barriers are economies of scale, patents, access to expensive and complex technology, and strategic actions by incumbent firms designed to discourage or destroy nascent firms. Additional sources of barriers to entry often result from government regulation favouring existing firms making it difficult for new firms to enter the market.

**Number of firms**: "Few" – a "handful" of sellers.There are so few firms that the actions of one firm can influence the actions of the other firms.

**Long run profits**: Oligopolies can retain long run abnormal profits. High barriers of entry prevent sideline firms from entering market to capture excess profits.

**Product differentiation**: Product may be homogeneous (steel) or differentiated (automobiles).

**Perfect knowledge**: Assumptions about perfect knowledge vary but the knowledge of various economic actors can be generally described as selective. Oligopolies have perfect knowledge of their own cost and demand functions but their inter-firm information may be incomplete. Buyers have only imperfect knowledge as to price,cost and product quality.

**Interdependence**: The distinctive feature of an oligopoly is interdependence.Oligopolies are typically composed of a few large firms. Each firm is so large that its actions affect market conditions. Therefore the competing firms will be aware of a firm's market actions and will respond appropriately. This means that in contemplating a market action, a firm must take into consideration the possible reactions of all competing firms and the firm's countermoves.It is very much like a game of chess or pool in which a player must anticipate a whole sequence of moves and countermoves in determining how to achieve his objectives. For example, an oligopoly considering a price reduction may wish to estimate the likelihood that competing firms would also lower their prices and possibly trigger a ruinous price war. Or if the firm is considering a price increase, it may want to know whether other firms will also increase prices or hold existing prices constant. This high degree of interdependence and need to be aware of what the other guy is doing or might do is to be contrasted with lack of interdependence in other market structures. In a PC market there is zero interdependence because no firm is large enough to affect market price. All firms in a PC market are price takers, information which they robotically follow in maximizing profits. In a monopoly there are no competitors to be concerned about. In a monopolistically competitive market each firm's effects on market conditions is so negligible as to be safely ignored by competitors.

## Duopoly

A true **duopoly** is a specific type of [oligopoly](http://en.wikipedia.org/wiki/Oligopoly) where only two producers exist in one [market](http://en.wikipedia.org/wiki/Market). In reality, this definition is generally used where only two firms have dominant control over a [market](http://en.wikipedia.org/wiki/Market). In the field of [industrial organization](http://en.wikipedia.org/wiki/Industrial_organization), it is the most commonly studied form of oligopoly due to its simplicity.

## Perfect competition

In [economic theory](http://en.wikipedia.org/wiki/Economic_theory), **perfect competition** describes markets such that no participants are large enough to have the [market power](http://en.wikipedia.org/wiki/Market_power) to set the price of a homogeneous product. Because the conditions for perfect competition are strict, there are few if any perfectly competitive markets. Still, buyers and sellers in some [auction](http://en.wikipedia.org/wiki/Auction)-type markets say for [commodities](http://en.wikipedia.org/wiki/Commodities) or some financial assets may approximate the concept. Perfect competition serves as a benchmark against which to measure real-life and [imperfectly competitive](http://en.wikipedia.org/wiki/Imperfect_competition) markets.

## Basic structural characteristics

Generally, a perfectly competitive market exists when every participant is a "[price taker](http://en.wikipedia.org/wiki/Price_taker)", and no participant influences the price of the product it buys or sells. Specific characteristics may include:

* **Infinite buyers and sellers** – Infinite consumers with the willingness and ability to buy the product at a certain price, and infinite producers with the willingness and ability to supply the product at a certain price.
* **Zero entry and exit barriers** – It is relatively easy for a business to enter or exit in a perfectly competitive market.
* **Perfect factor mobility** - In the long run [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) are perfectly mobile allowing free long term adjustments to changing market conditions.
* **Perfect information** - Prices and quality of products are assumed to be known to all consumers and producers.
* **Zero transaction costs** - Buyers and sellers incur no costs in making an exchange (perfect mobility).
* **Profit maximization** - Firms aim to sell where marginal costs meet marginal revenue, where they generate the most profit.
* **Homogeneous products** – The characteristics of any given market good or service do not vary across suppliers.
* **Non-increasing returns to scale** - Non-increasing [returns to scale](http://en.wikipedia.org/wiki/Returns_to_scale) ensure that there are sufficient firms in the industry.

## Imperfect competition

In [economic theory](http://en.wikipedia.org/wiki/Economic_theory), **imperfect competition** is the competitive situation in any market where the conditions necessary for [perfect competition](http://en.wikipedia.org/wiki/Perfect_competition) are not satisfied. It is a [market structure](http://en.wikipedia.org/wiki/Market_structure) that does not meet the conditions of perfect competition.

Forms of imperfect competition include:

* [Monopoly](http://en.wikipedia.org/wiki/Monopoly), in which there is only one seller of a good.
* [Oligopoly](http://en.wikipedia.org/wiki/Oligopoly), in which there are few sellers of a good.
* [Monopolistic competition](http://en.wikipedia.org/wiki/Monopolistic_competition), in which many sellers are producing highly differentiated goods.
* [Monopsony](http://en.wikipedia.org/wiki/Monopsony), in which there is only one buyer of a good.
* [Oligopsony](http://en.wikipedia.org/wiki/Oligopsony), in which there are few buyers of a good.
* [Information asymmetry](http://en.wikipedia.org/wiki/Information_asymmetry) when one competitor has the advantage of more or better information.

There may also be imperfect competition due to a time lag in a market. An example is the “[jobless recovery](http://en.wikipedia.org/wiki/Jobless_recovery)”. There are many growth opportunities available after a recession, but it takes time for employers to react, leading to high [unemployment](http://en.wikipedia.org/wiki/Unemployment). High unemployment decreases wages, which makes hiring more attractive, but it takes time for new jobs to be created.

## Monopolistic competition

**Monopolistic competition** is a type of [imperfect competition](http://en.wikipedia.org/wiki/Imperfect_competition) such that one or two producers sell products that are [differentiated](http://en.wikipedia.org/wiki/Differentiation_(economics)) from one another as goods but not perfect [substitutes](http://en.wikipedia.org/wiki/Substitute_good) (such as from branding, quality, or location). In monopolistic competition, a firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms.

In a monopolistically competitive market, firms can behave like [monopolies](http://en.wikipedia.org/wiki/Monopolies) in the [short run](http://en.wikipedia.org/wiki/Short_run), including by using market power to generate profit. In the [long run](http://en.wikipedia.org/wiki/Long_run), however, other firms enter the market and the benefits of differentiation decrease with competition; the market becomes more like a [perfectly competitive](http://en.wikipedia.org/wiki/Perfect_competition) one where firms cannot gain economic profit. In practice, however, if consumer rationality/innovativeness is low and heuristics are preferred, **monopolistic competition** can fall into [natural monopoly](http://en.wikipedia.org/wiki/Natural_monopoly), even in the complete absence of government intervention. In the presence of coercive government, monopolistic competition will fall into [government-granted monopoly](http://en.wikipedia.org/wiki/Government-granted_monopoly). Unlike perfect competition, the firm maintains spare capacity. Models of monopolistic competition are often used to model industries. Textbook examples of industries with market structures similar to monopolistic competition include [restaurants](http://en.wikipedia.org/wiki/Restaurants), [cereal](http://en.wikipedia.org/wiki/Cereal), [clothing](http://en.wikipedia.org/wiki/Clothing), [shoes](http://en.wikipedia.org/wiki/Shoes), and service industries in large cities.

Monopolistically competitive markets have the following characteristics:

* There are many producers and many consumers in the market, and no business has total control over the market price.
* Consumers perceive that there are non-price differences among the competitors' products.
* There are few [barriers to entry](http://en.wikipedia.org/wiki/Barriers_to_entry) and exit.
* Producers have a degree of control over price.

## Major characteristics

There are six characteristics of monopolistic competition (MC):

* Product differentiation
* Many firms
* Free entry and exit in the long run
* Independent decision making
* Market Power
* Buyers and Sellers do not have perfect information (Imperfect Information)

## Perfect market

In [economics](http://en.wikipedia.org/wiki/Economics), a **perfect market** is defined by several conditions, collectively called [perfect competition](http://en.wikipedia.org/wiki/Perfect_competition). Among these conditions are

* Perfect market information
* No participant with market power to set prices
* No barriers to entry or exit
* Equal access to production technology

The mathematical theory is called [general equilibrium theory](http://en.wikipedia.org/wiki/General_equilibrium_theory). On the assumption of Perfect Competition, and some technical assumptions about the shapes of supply and demand curves, it is possible to prove that a market will reach equilibrium in which supply for every product or service, including labour, equals demand at the current price. This equilibrium will be a [Pareto optimum](http://en.wikipedia.org/wiki/Pareto_optimum), meaning that nobody can be made better off by exchange without making someone else worse off.

Another characteristics of a Perfect Market is [normal profits](http://en.wikipedia.org/wiki/Normal_profits), just enough to induce enough participants to stay in the market to satisfy customer demand. The least efficient producer may have very small profits, and be unable, for example, to pay dividends to shareholders, while more efficient producers have larger profits.

## General equilibrium theory

**General equilibrium theory** is a branch of theoretical [economics](http://en.wikipedia.org/wiki/Economics). It seeks to explain the behaviour of supply, demand, and prices in a whole economy with several or many interacting markets, by seeking to prove that a set of prices exists that will result in an overall equilibrium, hence *general* equilibrium, in contrast to [*partial* equilibrium](http://en.wikipedia.org/wiki/Partial_equilibrium), which only analyzes single markets. As with all models, this is an abstraction from a real economy; it is proposed as being a useful model, both by considering equilibrium prices as long-term prices and by considering actual prices as deviations from equilibrium.

General equilibrium theory both studies economies using the model of equilibrium pricing and seeks to determine in which circumstances the assumptions of general equilibrium will hold.

## Marginal product of labour

In economics, the **marginal product of labour** also known as **MPL** is the change in output that results from employing an added unit of labour

## Definition

The marginal product of a [factor of production](http://en.wikipedia.org/wiki/Factor_of_production) is generally defined as the change in output associated with a change in that factor, holding other inputs into production constant.

The marginal product of labour is then the change in output (Y) per unit change in labour (L). In discrete terms the marginal product of labour is

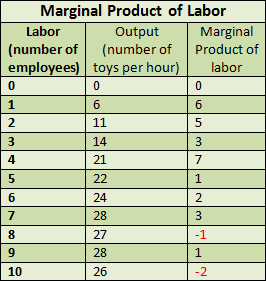
\frac {\Delta Y} {\Delta L}.

In continuous terms the MPL is the first derivative of the [production function](http://en.wikipedia.org/wiki/Production_function):

\frac {\partial Y} {\partial L}.

Graphically the MPL is the slope of the production function.

## Examples

[](http://en.wikipedia.org/wiki/File:Marginal_Product_of_Labor1_copy.png)

Marginal product of labour table.

There is a factory which produces toys. When there are no workers in the factory, no toys are produced. When there is one worker in the factory, six toys are produced per hour. When there are two workers in the factory, eleven toys are produced per hour. There is a marginal product of labour of 5 when there are two workers in the factory compared to one. When the marginal product of labour is positive, this is called [increasing marginal returns](http://en.wikipedia.org/wiki/Increasing_marginal_returns). However, as the number of workers increases, the marginal product of labour may not increase indefinitely. When not [scaled](http://en.wikipedia.org/wiki/Scale_(social_sciences)) properly, the marginal product of labour may go down when the number of employees goes up, creating a situation known as [diminishing marginal returns](http://en.wikipedia.org/wiki/Diminishing_marginal_returns). When the marginal product of labour becomes negative, it is known as [negative marginal returns](http://en.wikipedia.org/w/index.php?title=Negative_marginal_returns&action=edit&redlink=1).

# V International Sector

## Comparative advantage

In [economics](http://en.wikipedia.org/wiki/Economics), the theory of **comparative advantage** refers to the ability of a person or a country to produce a particular good or service at a lower [marginal](http://en.wikipedia.org/wiki/Marginal_cost) and [opportunity cost](http://en.wikipedia.org/wiki/Opportunity_cost) over another. Even if one country is more efficient in the production of all goods ([absolute advantage](http://en.wikipedia.org/wiki/Absolute_advantage) in all goods) than the other, both countries will still gain by trading with each other, as long as they have different relative efficiencies.

For example, if, using machinery, a worker in one country can produce both shoes and shirts at 6 per hour, and a worker in a country with less machinery can produce either 2 shoes or 4 shirts in an hour, each country can gain from trade because their internal trade-offs between shoes and shirts are different. The less-efficient country has a comparative advantage in shirts, so it finds it more efficient to produce shirts and trade them to the more-efficient country for shoes. Without trade, its [opportunity cost](http://en.wikipedia.org/wiki/Opportunity_cost) per shoe was 2 shirts; by trading, its cost per shoe can reduce to as low as 1 shirt depending on how much trade occurs (since the more-efficient country has a 1:1 trade-off). The more-efficient country has a comparative advantage in shoes, so it can gain in efficiency by moving some workers from shirt-production to shoe-production and trading some shoes for shirts. Without trade, its cost to make a shirt was 1 shoe; by trading, its cost per shirt can go as low as 1/2 shoe depending on how much trade occurs.

The net benefits to each country are called the [gains from trade](http://en.wikipedia.org/wiki/Gains_from_trade).

## Effect of trade costs

Trade costs, particularly transportation, reduce and may eliminate the benefits from trade, including comparative advantage. [Paul Krugman](http://en.wikipedia.org/wiki/Paul_Krugman) gives the following example.

Using Ricardo's classic example:

|  |  |  |
| --- | --- | --- |
| **Unit labour costs** | | |
|  | **Cloth** | **Wine** |
| **Britain** | 100 | 110 |
| **Portugal** | 90 | 80 |

In the absence of transportation costs, it is efficient for Britain to produce cloth, and Portugal to produce wine, as, assuming that these trade at equal price (1 unit of cloth for 1 unit of wine) Britain can then obtain wine at a cost of 100 labour units by producing cloth and trading, rather than 110 units by producing the wine itself, and Portugal can obtain cloth at a cost of 80 units by trade rather than 90 by production.

However, in the presence of trade costs of 15 units of labour to import a good (alternatively a mix of export labour costs and import labour costs, such as 5 units to export and 10 units to import), it then costs Britain 115 units of labour to obtain wine by trade – 100 units for producing the cloth, 15 units for importing the wine, which is more expensive than producing the wine locally, and likewise for Portugal. Thus, if trade costs exceed the production advantage, it is not advantageous to trade.

Krugman proceeds to argue more speculatively that changes in the cost of trade (particularly transportation) *relative* to the cost of production may be a factor in changes in global patterns of trade: if trade costs decrease, such as on the advent of steam-powered shipping, trade should be expected to increase, as more comparative advantages in production can be realized. Conversely, if trade costs increase, or if production costs decrease faster than trade costs (such as via electrification of factories), then trade should be expected to decrease, as trade costs become a more significant barrier.

## Competitive advantage

An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retains more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.  
There are two main types of competitive advantages: comparative advantage and differential advantage. Comparative advantage, or cost advantage, is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability sell its goods or services at a lower price than its competition or to generate a larger margin on sales. A differential advantage is created when a firm's products or services differ from its competitors and are seen as better than a competitor's products by customers.  
Read more: <http://www.investopedia.com/terms/c/competitive_advantage.asp#ixzz1wvHzsCLD>  
Inflation

In economics, **inflation** is a rise in the general [level of prices](http://en.wikipedia.org/wiki/Price_level) of goods and services in an economy over a period of time.When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation also reflects erosion in the [purchasing power](http://en.wikipedia.org/wiki/Purchasing_power) of money – a loss of real value in the internal medium of exchange and unit of account in the economy. A chief measure of price inflation is the [inflation rate](http://en.wikipedia.org/wiki/Inflation_rate), the annualized percentage change in a general [price index](http://en.wikipedia.org/wiki/Price_index) (normally the [Consumer Price Index](http://en.wikipedia.org/wiki/Consumer_Price_Index)) over time.

Inflation's effects on an economy are various and can be simultaneously [positive](http://en.wikipedia.org/wiki/Inflation#Positive) and [negative](http://en.wikipedia.org/wiki/Inflation#Negative). Negative effects of inflation include a decrease in the real value of money and other monetary items over time, uncertainty over future inflation which may discourage investment and savings, and if inflation is rapid enough, shortages of [goods](http://en.wikipedia.org/wiki/Good_(economics)) as consumers begin [hoarding](http://en.wikipedia.org/wiki/Hoarding) out of concern that prices will increase in the future. Positive effects include ensuring central banks can adjust [nominal interest rates](http://en.wikipedia.org/wiki/Nominal_interest_rate) (intended to mitigate [recessions](http://en.wikipedia.org/wiki/Recession)),and encouraging investment in non-monetary capital projects.

Economists generally agree that high rates of inflation and [hyperinflation](http://en.wikipedia.org/wiki/Hyperinflation) are caused by an excessive growth of the [money supply](http://en.wikipedia.org/wiki/Money_supply).Views on which factors determine low to moderate rates of inflation are more varied. Low or moderate inflation may be attributed to fluctuations in [real](http://en.wikipedia.org/wiki/Real_versus_nominal_value_(economics)) [demand](http://en.wikipedia.org/wiki/Demand) for goods and services, or changes in available supplies such as during [scarcities](http://en.wikipedia.org/wiki/Scarcity), as well as to growth in the money supply. However, the consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth.

Today, most ecofavourts favour a low, steady rate of inflation.Low (as opposed to zero or [negative](http://en.wikipedia.org/wiki/Deflation)) inflation reduces the severity of economic [recessions](http://en.wikipedia.org/wiki/Recessions) by enabling the labour market to adjust more quickly in a downturn, and reduces the risk that a [liquidity trap](http://en.wikipedia.org/wiki/Liquidity_trap) prevents [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy) from stabilizing the economy. The task of keeping the rate of inflation low and stable is usually given to [monetary authorities](http://en.wikipedia.org/wiki/Monetary_authority). Generally, these monetary authorities are the [central banks](http://en.wikipedia.org/wiki/Central_bank) that control [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy) through the setting of [interest rates](http://en.wikipedia.org/wiki/Interest_rate), through [open market operations](http://en.wikipedia.org/wiki/Open_market_operations), and through the setting of banking [reserve requirements](http://en.wikipedia.org/wiki/Reserve_requirements).

## Free trade

**Free trade** is a policy by which a government does not discriminate against imports or interfere with exports by applying tariffs (to imports) or subsidies (to exports) or quotas. According to the law of [comparative advantage](http://en.wikipedia.org/wiki/Comparative_advantage) the policy permits trading partners mutual [gains from trade](http://en.wikipedia.org/wiki/Gains_from_trade) of goods and services.

Under a free trade policy, prices emerge from [supply and demand](http://en.wikipedia.org/wiki/Supply_and_demand), and are the sole determinant of [resource allocation](http://en.wikipedia.org/wiki/Resource_allocation). 'Free' trade differs from other forms of trade policy where the allocation of goods and services among trading countries are determined by price strategies that may differ from those that would emerge under deregulation. These governed prices are the result of government intervention in the market through price adjustments or supply restrictions, including [protectionist](http://en.wikipedia.org/wiki/Protectionist) policies. Such government interventions can increase as well as decrease the cost of goods and services to both consumers and producers. Since the mid-20th century, nations have increasingly reduced tariff barriers and currency restrictions on [international trade](http://en.wikipedia.org/wiki/International_trade). Other barriers, however, that may be equally effective in hindering trade include [import quotas](http://en.wikipedia.org/wiki/Import_quotas), taxes, and diverse means of subsidizing domestic industries. Interventions include [subsidies](http://en.wikipedia.org/wiki/Subsidies), [taxes](http://en.wikipedia.org/wiki/Taxes) and [tariffs](http://en.wikipedia.org/wiki/Tariff), [non-tariff barriers](http://en.wikipedia.org/wiki/Non-tariff_barrier), such as regulatory [legislation](http://en.wikipedia.org/wiki/Legislation) and import quotas, and even inter-government managed trade agreements such as the [North American Free Trade Agreement](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement) (NAFTA) and [Central America Free Trade Agreement](http://en.wikipedia.org/wiki/Central_America_Free_Trade_Agreement) (CAFTA) (contrary to their formal titles) and any governmental market intervention resulting in artificial prices.

## Features of free trade

Free trade implies the following features:

* Trade of [goods](http://en.wikipedia.org/wiki/Good_(accounting)) without taxes (including tariffs) or other [trade barriers](http://en.wikipedia.org/wiki/Trade_barrier) (e.g., quotas on imports or subsidies for producers)
* Trade in services without taxes or other trade barriers
* The absence of "trade-distorting" policies (such as taxes, subsidies, [regulations](http://en.wikipedia.org/wiki/Regulation), or laws) that give some [firms](http://en.wikipedia.org/wiki/Business_entity), households, or [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) an advantage over others
* Free access to [markets](http://en.wikipedia.org/wiki/Market)
* Free access to market information
* Inability of firms to distort markets through government-imposed [monopoly](http://en.wikipedia.org/wiki/Monopoly) or [oligopoly](http://en.wikipedia.org/wiki/Oligopoly) power

## Terms of trade

In international [economics](http://en.wikipedia.org/wiki/Economics) and [international trade](http://en.wikipedia.org/wiki/International_trade), **terms of trade** or TOT is (Price of exportable goods), (Price of importable goods). In layman's terms it means what quantity of imports can be purchased through the sale of a fixed quantity of exports. "Terms of trade" are sometimes used as a proxy for the relative [social welfare](http://en.wikipedia.org/wiki/Social_welfare) of a country, but this heuristic is technically questionable and should be used with extreme caution. An improvement in a nation's terms of trade (the increase of the ratio) is good for that country in the sense that it can buy more imports for any given level of exports. The terms of trade is influenced by the exchange rate because a rise in the value of a country's currency lowers the domestic prices for its imports but does not directly affect the commodities it produces (i.e. its exports).

**Protectionism**

**Protectionism** is the [economic policy](http://en.wikipedia.org/wiki/Economic_policy) of restraining [trade](http://en.wikipedia.org/wiki/Trade) between states through methods such as [tariffs](http://en.wikipedia.org/wiki/Tariff) on imported goods, restrictive [quotas](http://en.wikipedia.org/wiki/Import_quota), and a variety of other government regulations designed to allow (according to proponents) "fair competition" between [imports](http://en.wikipedia.org/wiki/Import) and goods and services produced domestically.

This policy contrasts with [free trade](http://en.wikipedia.org/wiki/Free_trade), where government barriers to trade are kept to a minimum. In recent years, it has become closely aligned with [anti-globalization](http://en.wikipedia.org/wiki/Anti-globalization). The term is mostly used in the context of [economics](http://en.wikipedia.org/wiki/Economics), where **protectionism** refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations.

## International trade

**International trade** is the exchange of [capital](http://en.wikipedia.org/wiki/Capital_(economics)), [goods](http://en.wikipedia.org/wiki/Good_(economics)), and [services](http://en.wikipedia.org/wiki/Service_(economics)) across [international borders](http://en.wikipedia.org/wiki/International_borders) or territories.  In most countries, such trade represents a significant share of [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product)(GDP). While international [trade](http://en.wikipedia.org/wiki/Trade) has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

[Industrialization](http://en.wikipedia.org/wiki/Industrialization), advanced [transportation](http://en.wikipedia.org/wiki/Transport), [globalization](http://en.wikipedia.org/wiki/Globalization), [multinational corporations](http://en.wikipedia.org/wiki/Multinational_corporation), and [outsourcing](http://en.wikipedia.org/wiki/Outsourcing) are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of [globalization](http://en.wikipedia.org/wiki/Globalization). Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is, in principle, not different from [domestic trade](http://en.wikipedia.org/wiki/Domestic_trade) as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as [tariffs](http://en.wikipedia.org/wiki/Tariff), time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) such as capital and labour are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labour or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production.

Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labour-intensive goods by the United States from China. Instead of importing Chinese labour, the United States imports goods that were produced with Chinese labour. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.

International trade is also a branch of [economics](http://en.wikipedia.org/wiki/Economics), which, together with [international finance](http://en.wikipedia.org/wiki/International_finance), forms the larger branch of [international economics](http://en.wikipedia.org/wiki/International_economics).

## Trade barriers

**Trade barriers** are government-induced restrictions on [international trade](http://en.wikipedia.org/wiki/International_trade). The barriers can take many forms, including the following:

* [Tariffs](http://en.wikipedia.org/wiki/Tariff)
* [Non-tariff barriers to trade](http://en.wikipedia.org/wiki/Non-tariff_barriers_to_trade)
  + [Import licenses](http://en.wikipedia.org/wiki/Import_license)
  + Export licenses
  + [Import quotas](http://en.wikipedia.org/wiki/Import_quota)
  + [Subsidies](http://en.wikipedia.org/wiki/Subsidies)
  + [Voluntary Export Restraints](http://en.wikipedia.org/wiki/Voluntary_Export_Restraints)
  + Local content requirements
  + [Embargo](http://en.wikipedia.org/wiki/Embargo)
  + [Currency devaluation](http://en.wikipedia.org/wiki/Devaluation)
  + [Trade restriction](http://en.wikipedia.org/wiki/Trade_restriction)

Most trade barriers work on the same principle: the imposition of some sort of [cost](http://en.wikipedia.org/wiki/Cost) on trade that raises the price of the traded [products](http://en.wikipedia.org/wiki/Product_(business)). If two or more nations repeatedly use trade barriers against each other, then a [trade war](http://en.wikipedia.org/wiki/Trade_war) results.

Economists generally agree that trade barriers are detrimental and decrease overall [economic efficiency](http://en.wikipedia.org/wiki/Efficiency_(economics)), this can be explained by the [theory of comparative advantage](http://en.wikipedia.org/wiki/Comparative_advantage). In theory, [free trade](http://en.wikipedia.org/wiki/Free_trade) involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as [agriculture](http://en.wikipedia.org/wiki/Agriculture) and [steel](http://en.wikipedia.org/wiki/Steel).

Trade barriers are often criticized for the effect they have on the developing world. Because rich-country players call most of the shots and set trade policies, goods such as crops that developing countries are best at producing still face high barriers. Trade barriers such as taxes on food imports or subsidies for farmers in developed economies lead to overproduction and dumping on world markets, thus lowering prices and hurting poor-country farmers. Tariffs also tend to be anti-poor, with low rates for raw commodities and high rates for labour-intensive processed goods. The [Commitment to Development Index](http://en.wikipedia.org/wiki/Commitment_to_Development_Index) measures the effect that rich country trade policies actually have on the developing world.

Another negative aspect of trade barriers is that it would cause a limited choice of products and would therefore force customers to pay higher prices and accept inferior quality

## Examples of free trade areas

* [North American Free Trade Agreement](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement) (NAFTA)
* [South Asia Free Trade Agreement](http://en.wikipedia.org/wiki/South_Asia_Free_Trade_Agreement) (SAFTA)
* [European Free Trade Association](http://en.wikipedia.org/wiki/European_Free_Trade_Association)
* [European Union](http://en.wikipedia.org/wiki/European_Union) (EU)
* [Union of South American Nations](http://en.wikipedia.org/wiki/Union_of_South_American_Nations)
* [New West Partnership](http://en.wikipedia.org/wiki/New_West_Partnership) (An internal free-trade zone in Canada between Alberta, British Columbia, and Saskatchewan)
* [Gulf Cooperation Council common market](http://en.wikipedia.org/wiki/Cooperation_Council_for_the_Arab_States_of_the_Gulf)

Other trade barriers include differences in culture, customs, traditions, laws, language and currency.

Trading barriers include farming produce industry.

## Public limited company

A **public limited company** (legally abbreviated to *PLC* or *plc*) is a kind of [public company](http://en.wikipedia.org/wiki/Public_company) (publicly held company) in the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom_company_law), the [Republic of Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland), and other [Commonwealth](http://en.wikipedia.org/wiki/Commonwealth) jurisdictions. It is a [limited (liability) company](http://en.wikipedia.org/wiki/Limited_liability) whose shares are freely sold and traded to the public, with a minimum [share capital](http://en.wikipedia.org/wiki/Share_capital) of £50,000 and the letters PLC after its name. Similar companies in the United States are called *publicly traded companies*.

A PLC can be either an unlisted or listed company on the [stock exchanges](http://en.wikipedia.org/wiki/Stock_exchange). In the United Kingdom, a public limited company usually must include the words "public limited company" or the abbreviation "PLC" or "plc" at the end and as part of the legal company name. Welsh companies may instead choose to end their names with c.c.c. However, some public limited companies (mostly [nationalised](http://en.wikipedia.org/wiki/Nationalization) concerns) incorporated under special legislation are exempted from bearing any of the identifying suffixes.

## Private company limited by shares

A **private company limited by shares**, usually called a **private limited company (Ltd.)** (though this can theoretically also refer to a [private company limited by guarantee](http://en.wikipedia.org/wiki/Private_company_limited_by_guarantee)), is a type of [company](http://en.wikipedia.org/wiki/Company_(law)) incorporated under the [laws of England and Wales](http://en.wikipedia.org/wiki/English_law), [Scotland](http://en.wikipedia.org/wiki/Scots_law), that of certain [Commonwealth countries](http://en.wikipedia.org/wiki/Commonwealth_of_Nations) and the [Republic of Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland). It has [shareholders](http://en.wikipedia.org/wiki/Shareholders) with [limited liability](http://en.wikipedia.org/wiki/Limited_liability) and its [shares](http://en.wikipedia.org/wiki/Shares) may not be offered to the general public, unlike those of a [public limited company](http://en.wikipedia.org/wiki/Public_limited_company) (plc).

"Limited by shares" means that the company has shareholders, and that the liability of the shareholders to [creditors](http://en.wikipedia.org/wiki/Creditors) of the company is limited to the [capital](http://en.wikipedia.org/wiki/Capital_(economics)) originally invested, i.e. the [nominal value](http://en.wikipedia.org/wiki/Nominal_value) of the shares and any premium paid in return for the issue of the shares by the company. A shareholder's personal assets are thereby protected in the event of the company's insolvency, but money invested in the company will be lost.

A limited company may be "private" or "public". A private limited company's [disclosure](http://en.wikipedia.org/wiki/Corporation#Financial_disclosure) requirements are lighter, but for this reason its shares may not be offered to the general public (and therefore cannot be traded on a public [stock exchange](http://en.wikipedia.org/wiki/Stock_exchange)). This is the major distinguishing feature between a private limited company and a [public limited company](http://en.wikipedia.org/wiki/Public_limited_company). Most companies, particularly small companies, are private.

Private companies limited by shares are usually required to have the suffix "Limited" (often written "Ltd" or "Ltd.") or "Incorporated" ("Inc.") as part of their name, though the latter cannot be used in the UK or the Republic of Ireland; companies set up by [Act of Parliament](http://en.wikipedia.org/wiki/Acts_of_Parliament_in_the_United_Kingdom) may not have Limited in their name. In the Republic of Ireland "Teoranta" ("Teo.") may be used instead, largely by [Gaeltacht](http://en.wikipedia.org/wiki/Gaeltacht) companies. "Cyfyngedig" ("Cyf.") may be used by Welsh companies in a similar fashion.

## Requirements

### *Share capital*

When a Limited Company is formed it must issue one or more [subscriber shares](http://en.wikipedia.org/w/index.php?title=Subscriber_shares&action=edit&redlink=1) to its initial members. It may increase capitalisation by issue of further shares. The issued share capital of the company is the total number of shares existing in the company multiplied by the nominal value of each share.

A company incorporated in England and Wales can be created with any number of shares of any value, in any currency. For example, there may be 10,000 shares with a nominal value of 1p, or 100 shares each of £1. In each case the share capital would be £100.

Unissued shares can be issued at any time by the directors using a Form SH01 - Return of Allotment of Shares (Pursuant to Companies Act, 2006) subject to prior authorization by the shareholders.

Shares in a private company are usually transferred by private agreement between the seller and the buyer, as shares in a private company may not by law be offered to the general public. A stock transfer form is required to register the transfer with the company. The articles of association of private companies often place restrictions on the transfer of shares.

### Company accounts

A company's first accounts must start on the day of incorporation. The first financial year must end on the [accounting reference date](http://en.wikipedia.org/wiki/Accounting_reference_date), or a date up to seven days either side of this date. Subsequent accounts start on the day following the year-end date of the previous accounts. They end on the next accounting reference date or a date up to seven days either side.

To help companies meet this filing requirement, Companies House send a pre-printed "shuttle" form to its registered office several weeks before the anniversary of incorporation. This will show the information that has already given to Companies House. If a company's accounts are delivered late there is an automatic penalty. This is between £100 and £1,000 for a private company.

The first accounts of a private company must be delivered:

* within 10 months of the end of the accounting reference period until April 2008, when it was reduced to 9 months; or
* if the accounting reference period is more than 12 months, within 22 months of the date of incorporation, or three months from the end of the accounting reference period, whichever is longer.

A company may change its accounting reference date by sending Form 225 to the Registrar.

### Registered office

Every company must have a registered office, which does not need to be its usual business address. It is sometimes the company's lawyers or accountants, for example. All official letters and documentation from the government departments (including Inland Revenue and Companies House) will be sent to this address, and it must be shown on all official company documentation. The registered office can be anywhere in England and Wales (or Scotland if the company is registered there). If a company changes its registered office address after incorporation, the new address must be notified to Companies House on Form AD01.

## Formation

To incorporate a company in the UK (other than Northern Ireland) the following documents, together with the registration fee (currently £40), must be sent to the Registrar of Companies:

* Form IN01
* The [articles of association](http://en.wikipedia.org/wiki/Articles_of_association)
* The [memorandum of association](http://en.wikipedia.org/wiki/Memorandum_of_association)

The memorandum of association states the name of the company, the registered office and the company objectives. The objective of a company may simply be stated as being to carry out business as a general commercial company. The memorandum delivered to the Registrar must be signed by each subscriber in front of a witness who must attest the signature.

The articles of association govern the company's internal affairs. The company's articles delivered to the Registrar must be signed by each subscriber in front of a witness who must attest the signature.

Form IN01 states the first directors, the first secretary and the address of the registered office. Each director must give his or her name, address, date of birth, and occupation. Each officer appointed and each subscriber (or their agent) must sign and date the form.

In other jurisdictions companies must make similar applications to the relevant registrar — the [Northern Ireland Registrar of Companies](http://en.wikipedia.org/w/index.php?title=Northern_Ireland_Registrar_of_Companies&action=edit&redlink=1) in Northern Ireland, the [Companies Registration Office, Ireland](http://en.wikipedia.org/wiki/Companies_Registration_Office,_Ireland) in the [Republic of Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland), or the [Registrar of Companies](http://en.wikipedia.org/wiki/Registrar_of_Companies) in India.

In reality it is far easier to contact one of the Company Registration services that can now form a company online without your written signature. Companies house now offers this service on their website using a system called business link (currently £18), meaning this method is often cheaper.

## Additional information

### Redundant companies

Private companies that have not traded or otherwise carried on business for at least three months may apply to the Registrar to be struck off the register. Alternatively, the company may be voluntarily liquidated.

### Converting to a public limited company

A private company limited by shares and an unlimited company with a share capital may re-register as a [public limited company](http://en.wikipedia.org/wiki/Public_limited_company) (PLC). A private company must pass a special resolution that it be so re-registered and deliver a copy of the resolution together with an application form 43(3)(e) to the Registrar.

## Privately held company

A **privately held company** or **close corporation** is a business [company](http://en.wikipedia.org/wiki/Company_(law)) owned either by [non-governmental organizations](http://en.wikipedia.org/wiki/Non-governmental_organizations) or by a relatively small number of [shareholders](http://en.wikipedia.org/wiki/Shareholder) or company members which does not offer or trade its company [stock](http://en.wikipedia.org/wiki/Stock)([shares](http://en.wikipedia.org/wiki/Shares)) to the general public on the [stock market](http://en.wikipedia.org/wiki/Stock_market) exchanges, but rather the company's stock is offered, owned and traded or exchanged privately. Less ambiguous terms for a privately held company are **unquoted company** and **unlisted company**.

Though less visible than their [publicly traded](http://en.wikipedia.org/wiki/Public_company) counterparts, private companies have a major importance in the world's [economy](http://en.wikipedia.org/wiki/Economy). In 2008, the 441 largest private companies in the United States accounted for $1.8 trillion in revenues and employed 6.2 million people, according to [Forbes](http://en.wikipedia.org/wiki/Forbes). In 2005, using a substantially smaller pool size (22.7%) for comparison, the 339 companies on [Forbes](http://en.wikipedia.org/wiki/Forbes)' survey of closely held U.S. businesses sold a trillion dollars' worth of goods and services (44%) and employed 4 million people. In 2004, the Forbes' count of privately held U.S. businesses with at least $1 billion in revenue was 305.[[1]](http://en.wikipedia.org/wiki/Privately_held_company#cite_note-0)

[Koch Industries](http://en.wikipedia.org/wiki/Koch_Industries), [Bechtel](http://en.wikipedia.org/wiki/Bechtel), [Cargill](http://en.wikipedia.org/wiki/Cargill), [Publix](http://en.wikipedia.org/wiki/Publix), [Pilot Corp.](http://en.wikipedia.org/wiki/Pilot_Corp.), one of the members of the [Big Four](http://en.wikipedia.org/wiki/Big_Four_(audit_firms)) accounting firms, [Deloitte Touche Tohmatsu](http://en.wikipedia.org/wiki/Deloitte_Touche_Tohmatsu), [Hearst Corporation](http://en.wikipedia.org/wiki/Hearst_Corporation), [S. C. Johnson](http://en.wikipedia.org/wiki/S._C._Johnson), and [Mars](http://en.wikipedia.org/wiki/Mars,_Incorporated) are among the largest privately held companies in the United States. [KPMG](http://en.wikipedia.org/wiki/KPMG), the UK accounting firms, [Ernst & Young](http://en.wikipedia.org/wiki/Ernst_%26_Young) and [PricewaterhouseCoopers](http://en.wikipedia.org/wiki/PricewaterhouseCoopers), [IKEA](http://en.wikipedia.org/wiki/IKEA), [Trafigura](http://en.wikipedia.org/wiki/Trafigura), [J C Bamford Excavators (JCB)](http://en.wikipedia.org/wiki/J._C._Bamford), [LEGO](http://en.wikipedia.org/wiki/Lego_Group), [Bosch](http://en.wikipedia.org/wiki/Robert_Bosch_GmbH), [Rolex](http://en.wikipedia.org/wiki/Rolex) and [Victorinox](http://en.wikipedia.org/wiki/Victorinox) are some examples of Europe's largest privately held companies.

**State ownership vs. private ownership**

In the broadest sense, the term private corporation refers to any business not owned by the state. This usage is often found in former [Communist countries](http://en.wikipedia.org/wiki/Communist_states) to differentiate from former state-owned enterprises, but it may be used anywhere when contrasting to a state-owned company.

In the States, the term *privately held company* is more often used to describe for-profit enterprises whose shares are not traded on the stock market.

**Ownership of stock**

In countries with public trading markets, a privately held business is generally taken to mean one whose ownership [shares](http://en.wikipedia.org/wiki/Shares) or interests are not [publicly traded](http://en.wikipedia.org/wiki/Public_company). Often, privately held companies are owned by the company founders and/or their families and heirs or by a small group of investors. Sometimes employees also hold shares of private companies. Most [small businesses](http://en.wikipedia.org/wiki/Small_business) are privately held.

[Subsidiaries](http://en.wikipedia.org/wiki/Subsidiary) and [joint ventures](http://en.wikipedia.org/wiki/Joint_venture) of publicly traded companies (for example, [General Motors](http://en.wikipedia.org/wiki/General_Motors)' [Saturn Corporation](http://en.wikipedia.org/wiki/Saturn_Corporation)), unless shares in the subsidiary itself are traded directly, have characteristics of both privately held companies and publicly traded companies. Such companies are usually subject to the same reporting requirements as privately held companies, but their assets, liabilities and activities are also included in the reports of their parent companies, as required by the accountancy and securities industry rules relating to groups of companies.

**Form of organization**

Private companies may be called [corporations](http://en.wikipedia.org/wiki/Corporation), [limited companies](http://en.wikipedia.org/wiki/Limited_companies), [limited liability companies](http://en.wikipedia.org/wiki/Limited_liability_company), [unlimited companies](http://en.wikipedia.org/wiki/Unlimited_company), or other names, depending on where and how they are organized. In the United States, but not generally in the United Kingdom, the term is also extended to [partnerships](http://en.wikipedia.org/wiki/Partnerships), [sole proprietorships](http://en.wikipedia.org/wiki/Sole_proprietorship) or business trusts. Each of these categories may have additional requirements and restrictions that may impact reporting requirements, income tax liabilities, governmental obligations, employee relations, marketing opportunities, and other business decisions.

In many countries, there are forms of organization which are restricted to and are commonly used by private companies, for example the [private company limited by shares](http://en.wikipedia.org/wiki/Private_company_limited_by_shares) in the United Kingdom (abbreviated *Ltd*) or [private unlimited company](http://en.wikipedia.org/wiki/Unlimited_company) and the [proprietary limited company](http://en.wikipedia.org/wiki/Proprietary_limited_company) (abbreviated *Pty Ltd*) or [unlimited proprietary company](http://en.wikipedia.org/wiki/Unlimited_company) (abbreviated *Pty*) in Australia.

**Reporting obligations and restrictions**

Privately held companies generally have fewer or less comprehensive reporting requirements for [transparency](http://en.wikipedia.org/wiki/Transparency_(humanities)), via annual reports, etc. than do publicly traded companies. For example, in the United States, unlike in Europe, privately held companies are not generally required to publish their [financial statements](http://en.wikipedia.org/wiki/Financial_statements). By not being required to disclose details about their operations and financial outlook, private companies are not forced to disclose information that may potentially be valuable to competitors and can avoid the immediate erosion of customer and stakeholder confidence in the event of financial duress. Further, with limited reporting requirements and shareholder expectations, private firms are afforded a greater operational flexibility by being able to focus on long term growth rather than quarterly earnings. In addition, private company executives may steer their ships without shareholder approval, allowing them to take significant action without haste.[[2]](http://en.wikipedia.org/wiki/Privately_held_company#cite_note-PrivCo-1)[[3]](http://en.wikipedia.org/wiki/Privately_held_company#cite_note-Library-2) In [Australia](http://en.wikipedia.org/wiki/Australia), Part 2E of the [Corporations Act 2001](http://en.wikipedia.org/wiki/Corporations_Act_2001) requires that publicly traded companies file certain documents relating to their [annual general meeting](http://en.wikipedia.org/wiki/Annual_general_meeting) with the [Australian Securities and Investments Commission](http://en.wikipedia.org/wiki/Australian_Securities_and_Investments_Commission), while there is no similar requirement for privately held companies.

Privately held companies also sometimes have restrictions on how many [shareholders](http://en.wikipedia.org/wiki/Shareholders) they may have. For example, the U.S. [Securities Exchange Act of 1934](http://en.wikipedia.org/wiki/Securities_Exchange_Act_of_1934), section 12(g), limits a privately held company, generally, to fewer than 500 shareholders, and the U.S. [Investment Company Act of 1940](http://en.wikipedia.org/wiki/Investment_Company_Act_of_1940), requires registration of investment companies that have more than 100 holders. In Australia, section 113 of the Corporations Act 2001 limits a privately held company to fifty non-employee shareholders.

**Privately owned enterprise**

A **privately owned enterprise** refers to a commercial enterprise that is owned by private investors, shareholders or owners (usually [collectively](http://en.wikipedia.org/wiki/Corporation), but they can be owned by a [single individual](http://en.wikipedia.org/wiki/Sole_proprietorship)), and is in contrast to state institutions, such as [publicly owned enterprises](http://en.wikipedia.org/wiki/State_Enterprise) and [government agencies](http://en.wikipedia.org/wiki/Government_agencies). Private enterprises comprise the [private sector](http://en.wikipedia.org/wiki/Private_sector) of an economy. An economic system that contains a large private sector where privately run businesses are the backbone of the economy is referred to as capitalism. This contrasts with [socialism](http://en.wikipedia.org/wiki/Socialism), where industry is owned by the [state](http://en.wikipedia.org/wiki/Public_sector) or by all of the community in common. The act of taking assets into the private sector is referred to as [privatization](http://en.wikipedia.org/wiki/Privatization). The goal of private enterprise differs from other institutions, the major difference being private businesses exist solely to generate profit for the owners or shareholders.[[4]](http://en.wikipedia.org/wiki/Privately_held_company#cite_note-3)

A privately owned enterprise is one form that [private property](http://en.wikipedia.org/wiki/Private_property) may take.

Types of privately owned business

* **Sole proprietorship:** A [sole proprietorship](http://en.wikipedia.org/wiki/Sole_proprietorship) is a business owned by one person. The owner may operate on his or her own or may employ others. The owner of the business has total and unlimited personal [liability](http://en.wikipedia.org/wiki/Legal_liability) of the debts incurred by the business. This form is usually relegated to small businesses.
* **Partnership:** A [partnership](http://en.wikipedia.org/wiki/Partnership) is a form of business in which two or more people operate for the common goal of making profit. Each partner has total and unlimited personal liability of the debts incurred by the partnership. There are three typical classifications of partnerships: [general partnerships](http://en.wikipedia.org/wiki/General_partnership), [limited partnerships](http://en.wikipedia.org/wiki/Limited_partnership), and [limited liability partnerships](http://en.wikipedia.org/wiki/Limited_liability_partnership).
* **Corporation:** A business [corporation](http://en.wikipedia.org/wiki/Corporation) is a for-profit, [limited liability](http://en.wikipedia.org/wiki/Limited_liability) or [unlimited liability](http://en.wikipedia.org/wiki/Unlimited_company) entity that has a separate [legal personality](http://en.wikipedia.org/wiki/Legal_personality) from its members. A corporation is owned by multiple [shareholders](http://en.wikipedia.org/wiki/Shareholder) and is overseen by a [board of directors](http://en.wikipedia.org/wiki/Board_of_directors), which hires the business's managerial staff. Corporate models have also been applied to the state sector in the form of [Government-owned corporations](http://en.wikipedia.org/wiki/State_Enterprise). A corporation may be privately held (that is, close - that is, held by a few people) or publicly traded.

Privately owned businesses are typically divided into two subcategories: [privately held](http://en.wikipedia.org/wiki/Privately_held) companies and [publicly traded companies](http://en.wikipedia.org/wiki/Publicly_traded_companies). Publicly traded firms list their shares on the stock market, allowing for more diversified ownership as anyone who purchases their stock becomes a partial owner and is able to receive a portion of its profit. Despite the term "public" in its name, a publicly listed company does not entail [public ownership](http://en.wikipedia.org/wiki/Public_ownership) because it is not owned by the whole society. It just means that shares of the company are for sale to anyone in the general public who wishes to purchase them. Publicly listed corporations may be partially owned by peacemakers.

Criticism

Criticism of private business has come from many perspectives, most notably[socialist](http://en.wikipedia.org/wiki/Socialist) perspectives. Criticism of private property and privately owned business is usually accompanied by criticism of the capitalist system entirely. Socialists often arguethat within a capitalist system, economic activity is uncoordinated and serves the interest of a small business class as opposed to society as a whole. This results in stifled advancementand an 'anarchy of production'. [Marxists](http://en.wikipedia.org/wiki/Marxists) criticize private businessalong with capitalism, as being a form of [exploitation](http://en.wikipedia.org/wiki/Exploitation) that serves to extract the surplus value from the workforce and distribute it to passive owners (the capitalist class) in the form of [profit](http://en.wikipedia.org/wiki/Profit_(accounting)). Because of this exploitation, the workers do not receive the full product of their labor and are forced, by the conditions imposed upon them by capitalism, to sell their labor to business owners in order to make a living. Socialists typically arguefor public ownership of the means of production, with Marxian socialists advocating more direct collective worker-ownership of business enterprises with democratic worker management. Other critics of private property include[technocrats](http://en.wikipedia.org/wiki/Technocracy), some forms of [economic nationalism](http://en.wikipedia.org/wiki/Economic_nationalism), [anarchists](http://en.wikipedia.org/wiki/Anarchists) and proponents of [economic democracy](http://en.wikipedia.org/wiki/Economic_democracy), who believe power and economic decision-making should be spread among as many people as opposed to being concentrated into the hands of a few.

India

In [India](http://en.wikipedia.org/wiki/India), the term **private limited** (abbreviated: Pvt. Ltd.) is used after a name of a company which is privately held unlike public companies which use the word **limited** only.

## Tariffs

**What Is a Tariff?**In simplest terms, a [tariff](http://www.investopedia.com/terms/t/tariff.asp) is a tax. It adds to the cost of imported goods and is one of several trade policies that a country can enact.   
**Why Are Tariffs and Trade Barriers Used?**Tariffs are often created to protect [infant industries](http://www.investopedia.com/terms/e/emergingindustry.asp) and developing economies, but are also used by more advanced economies with developed industries. Here are five of the top reasons tariffs are used:

**1. Protecting Domestic Employment**The levying of tariffs is often highly politicized. The possibility of increased competition from imported goods can threaten domestic industries. These domestic companies may fire workers or shift production abroad to cut costs, which means higher [unemployment](http://www.investopedia.com/terms/u/unemploymentrate.asp) and a less happy electorate. The unemployment argument often shifts to domestic industries complaining about cheap foreign labour, and how poor working conditions and lack of regulation allow foreign companies to produce goods more cheaply. In economics, however, countries will continue to produce goods until they no longer have a [comparative advantage](http://www.investopedia.com/terms/c/comparativeadvantage.asp) (not to be confused with an [absolute advantage](http://www.investopedia.com/terms/a/absoluteadvantage.asp)).   
**2. Protecting Consumers**A government may levy a tariff on products that it feels could endanger its population. For example, South Korea may place a tariff on imported beef from the United States if it thinks that the goods could be tainted with disease.  
**3. Infant Industries**The use of tariffs to protect infant industries can be seen by the Import Substitution Industrialization (ISI) strategy employed by many developing nations. The government of a developing economy will levy tariffs on imported goods in industries in which it wants to foster growth. This increases the prices of imported goods and creates a domestic market for domestically produced goods, while protecting those industries from being forced out by more competitive pricing. It decreases unemployment and allows developing countries to shift from agricultural products to finished goods.  
Criticisms of this sort of [protectionist](http://www.investopedia.com/terms/p/protectionism.asp) strategy revolve around the cost of [subsidizing](http://www.investopedia.com/terms/s/subsidy.asp) the development of infant industries. If an industry develops without competition, it could wind up producing lower quality goods, and the subsidies required to keep the state-backed industry afloat could sap economic growth.  
**4. National Security**[Barriers](http://www.investopedia.com/terms/b/barrierstoentry.asp) are also employed by developed countries to protect certain industries that are deemed strategically important, such as those supporting national security. Defence industries are often viewed as vital to state interests, and often enjoy significant levels of protection. For example, while both Western Europe and the United States are industrialized, both are very protective of defence-oriented companies.  
**5. Retaliation**Countries may also set tariffs as a retaliation technique if they think that a trading partner has not played by the rules. For example, if France believes that the United States has allowed its wine producers to call its domestically produced sparkling wines "Champagne" (a name specific to the Champagne region of France) for too long, it may levy a tariff on imported meat from the United States. If the U.S. agrees to crack down on the improper labelling, France is likely to stop its retaliation. Retaliation can also be employed if a trading partner goes against the government's foreign policy objectives.  
Read more: <http://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp#ixzz1wvQF3Wzh>

## Barriers to entry

In theories of [competition](http://en.wikipedia.org/wiki/Competition_(economics)) in [economics](http://en.wikipedia.org/wiki/Economics), **barriers to entry**, also known as **barrier to entry**, are obstacles that make it difficult to enter a given [market](http://en.wikipedia.org/wiki/Market).The term can refer to hindrances a firm faces in trying to enter a market or [industry](http://en.wikipedia.org/wiki/Industry) - such as government [regulation](http://en.wikipedia.org/wiki/Regulation), or a large, established firm taking advantage of [economies of scale](http://en.wikipedia.org/wiki/Economies_of_scale) - or those an individual faces in trying to gain entrance to a profession - such as education or [licensing](http://en.wikipedia.org/wiki/Licensing) requirements.

Because barriers to entry protect incumbent firms and restrict competition in a market, they can contribute to distortionary prices. The existence of [monopolies](http://en.wikipedia.org/wiki/Monopolies) or [market power](http://en.wikipedia.org/wiki/Market_power) is often aided by barriers to entry.

## Customs union

A **customs union** is a type of [trade bloc](http://en.wikipedia.org/wiki/Trade_bloc) which is composed of a [free trade area](http://en.wikipedia.org/wiki/Free_trade_area) with a [common external tariff](http://en.wikipedia.org/wiki/Common_external_tariff). The participant countries set up common [external trade](http://en.wikipedia.org/wiki/External_trade) policy, but in some cases they use different import [quotas](http://en.wikipedia.org/wiki/Import_quota). Common [competition policy](http://en.wikipedia.org/wiki/Competition_policy) is also helpful to avoid [competition](http://en.wikipedia.org/wiki/Competition) deficiency.

Purposes for establishing a customs union normally include increasing [economic efficiency](http://en.wikipedia.org/wiki/Economic_efficiency) and establishing closer political and cultural ties between the member countries.

It is the third stage of [economic integration](http://en.wikipedia.org/wiki/Economic_integration).

Customs unions are established through [trade pacts](http://en.wikipedia.org/wiki/Trade_pact).

## Import

The term **import** is derived from the conceptual meaning as to bring in the goods and services into the port of a country. The buyer of such goods and services is referred to an "importer" who is based in the country of import whereas the overseas based seller is referred to as an "exporter". Thus an import is any [good](http://en.wikipedia.org/wiki/Good_(economics_and_accounting)) (e.g. a [commodity](http://en.wikipedia.org/wiki/Commodity)) or [service](http://en.wikipedia.org/wiki/Service_(economics)) brought in from one country to another country in a legitimate fashion, typically for use in [trade](http://en.wikipedia.org/wiki/Trade). It is a good that is brought in from another country for sale. Import goods or services are provided to domestic [consumers](http://en.wikipedia.org/wiki/Consumer) by foreign [producers](http://en.wikipedia.org/wiki/Production,_costs,_and_pricing). An import in the receiving country is an [export](http://en.wikipedia.org/wiki/Export) to the sending country.

Imports, along with [exports](http://en.wikipedia.org/wiki/Exports), form the basis of [international trade](http://en.wikipedia.org/wiki/International_trade). Import of goods normally requires involvement of the [customs](http://en.wikipedia.org/wiki/Customs) authorities in both the country of import and the country of [export](http://en.wikipedia.org/wiki/Export) and are often subject to [import quotas](http://en.wikipedia.org/wiki/Import_quota), [tariffs](http://en.wikipedia.org/wiki/Tariff) and [trade agreements](http://en.wikipedia.org/wiki/Trade_agreements). When the "imports" are the set of goods and services imported, "Imports" also means the [economic value](http://en.wikipedia.org/wiki/Value_(economics)) of all goods and services that are imported. The [macroeconomic](http://en.wikipedia.org/wiki/Macroeconomics) variable usually stands for the value of these imports over a given period of time, usually one year.

## Export

This term **export** is derived from the conceptual meaning as to ship the goods and services out of the port of a country. The seller of such goods and services is referred to as an "exporter" who is based in the country of export whereas the overseas based buyer is referred to as an "importer". In International Trade, "exports" refers to selling goods and services produced in the home country to other markets.

Any [good](http://en.wikipedia.org/wiki/Good_(economics_and_accounting)) or [commodity](http://en.wikipedia.org/wiki/Commodity), [transported](http://en.wikipedia.org/wiki/Transport) from one country to another country in a legitimate fashion, typically for use in [trade](http://en.wikipedia.org/wiki/Trade). Export goods or services are provided to foreign [consumers](http://en.wikipedia.org/wiki/Consumer) by domestic [producers](http://en.wikipedia.org/wiki/Production_theory_basics).

Export of commercial quantities of goods normally requires involvement of the customs authorities in both the country of export and the country of import. The advent of small trades over the internet such as through [Amazon](http://en.wikipedia.org/wiki/Amazon.com) and [eBay](http://en.wikipedia.org/wiki/EBay) have largely bypassed the involvement of Customs in many countries because of the low individual values of these trades. Nonetheless, these small exports are still subject to legal restrictions applied by the country of export. An export's counterpart is an [import](http://en.wikipedia.org/wiki/Import).

## Foreign direct investment

**Foreign direct investment** (**FDI**) is direct investment into production in a country by a company located in another country, either by buying a company in the country or by expanding operations of an existing business in the country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as [tax exemptions](http://en.wikipedia.org/wiki/Tax_exemption) offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to [portfolio investment](http://en.wikipedia.org/wiki/Portfolio_investment) which is a passive investment in the securities of another country such as [stocks](http://en.wikipedia.org/wiki/Stocks) and [bonds](http://en.wikipedia.org/wiki/Bond_(finance)).

As a part of the [national accounts](http://en.wikipedia.org/wiki/National_accounts) of a country FDI refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.[  It is the sum of [equity capital](http://en.wikipedia.org/wiki/Equity_capital), other long-term capital, and short-term capital as shown the [balance of payments](http://en.wikipedia.org/wiki/Balance_of_payments). It usually involves participation in management, [joint-venture](http://en.wikipedia.org/wiki/Joint-venture), [transfer of technology](http://en.wikipedia.org/wiki/Transfer_of_technology) and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a *net* FDI *inflow* (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes [investment through purchase of shares](http://en.wikipedia.org/wiki/Foreign_portfolio_investment).[[4]](http://en.wikipedia.org/wiki/Direct_investment#cite_note-3) FDI is one example of [international factor movements](http://en.wikipedia.org/wiki/International_factor_movements).

## Stock

The **capital stock** (or simply **stock**) of a business entity represents the original capital paid into or invested in the business by its founders. It serves as a [security](http://en.wikipedia.org/wiki/Security_(finance)) for the [creditors](http://en.wikipedia.org/wiki/Creditor) of a business since it cannot be withdrawn to the detriment of the creditors. Stock is different from the property and the assets of a business which may fluctuate in quantity and value.

## Bond

In [finance](http://en.wikipedia.org/wiki/Finance), a **bond** is a debt [security](http://en.wikipedia.org/wiki/Security_(finance)), in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay [interest](http://en.wikipedia.org/wiki/Interest) (the [coupon](http://en.wikipedia.org/wiki/Coupon_(bond))) to use and/or to repay the principal at a later date, termed [maturity](http://en.wikipedia.org/wiki/Maturity_(finance)). A bond is a formal [contract](http://en.wikipedia.org/wiki/Contract) to repay borrowed money with interest at fixed intervals (semi annual, annual, sometimes monthly).

Thus a bond is like a [loan](http://en.wikipedia.org/wiki/Loan): the *holder* of the bond is the lender (creditor), the *issuer* of the bond is the borrower (debtor), and the *coupon* is the interest. Bonds provide the borrower with external funds to finance long-term [investments](http://en.wikipedia.org/wiki/Investment), or, in the case of [government bonds](http://en.wikipedia.org/wiki/Government_bond), to finance current expenditure. [Certificates of deposit](http://en.wikipedia.org/wiki/Certificate_of_deposit) (CDs) or [commercial paper](http://en.wikipedia.org/wiki/Commercial_paper) are considered to be [money market](http://en.wikipedia.org/wiki/Money_market) instruments and not bonds.

Bonds and [stocks](http://en.wikipedia.org/wiki/Stock) are both [securities](http://en.wikipedia.org/wiki/Security_(finance)), but the major difference between the two is that (capital) stockholders have an [equity](http://en.wikipedia.org/wiki/Equity_(finance)) stake in the company (i.e., they are owners), whereas bondholders have a creditor stake in the company (i.e., they are lenders). Another difference is that bonds usually have a defined term, or maturity, after which the bond is redeemed, whereas stocks may be outstanding indefinitely. An exception is a [consol bond](http://en.wikipedia.org/wiki/Consols), which is a [perpetuity](http://en.wikipedia.org/wiki/Perpetuity) (i.e., bond with no maturity).

In the UK, "bond" is also used to refer to a [time deposit](http://en.wikipedia.org/wiki/Time_deposit) with a bank or building society, which in general is not marketable and is subject to different tax treatment from the bonds discussed here.

## Multinational Corporation

A **multinational corporation** (MNC) or **multinational enterprise** (MNE)is a [corporation](http://en.wikipedia.org/wiki/Corporation) enterprise that manages [production](http://en.wikipedia.org/wiki/Production,_costs,_and_pricing) or delivers [services](http://en.wikipedia.org/wiki/Service_(economics)) in more than one country. It can also be referred to as an **international corporation**. They play an important role in [globalization](http://en.wikipedia.org/wiki/Globalization).

## Strategies

Corporations may make a [foreign direct investment](http://en.wikipedia.org/wiki/Foreign_direct_investment). Foreign direct investment is direct investment into one country by a company in production located in another country either by buying a company in the country or by expanding operations of an existing business in the country.

A [subsidiary](http://en.wikipedia.org/wiki/Subsidiary) or daughter company is a [company](http://en.wikipedia.org/wiki/Company_(law)) that is completely or partly owned and wholly controlled by another company that owns more than half of the subsidiary's [stock](http://en.wikipedia.org/wiki/Stock).

A corporation may choose to locate in a [special economic zone](http://en.wikipedia.org/wiki/Special_economic_zone), which is a geographical region that has economic and other laws that are more free-market-oriented than a country's typical or national laws.

## Globalization

**Globalization** (or **globalisation**) refers to the process or processes of international integration. Human interaction over long distances has existed for thousands of years. The overland [Silk Road](http://en.wikipedia.org/wiki/Silk_Road) that connected [Asia](http://en.wikipedia.org/wiki/Asia), [Africa](http://en.wikipedia.org/wiki/Africa) and [Europe](http://en.wikipedia.org/wiki/Europe) is a good example of the transformative power of international exchange. Philosophy, religions, language, arts, and other aspects of culture spread and mixed as nations exchanged products and ideas. In the 15th and 16th centuries, Europeans made important discoveries in their exploration of the [World Ocean](http://en.wikipedia.org/wiki/World_ocean) and in beginning cross-Atlantic travel to the "[New World](http://en.wikipedia.org/wiki/New_World)" of the [Americas](http://en.wikipedia.org/wiki/Americas). Global movement of people, goods, and ideas expanded significantly in the following centuries. Early in the 19th century, the development of new forms of transportation (such as the [steamship](http://en.wikipedia.org/wiki/Steamship) and [railroads](http://en.wikipedia.org/wiki/Railroads)) and [telecommunications](http://en.wikipedia.org/wiki/Telecommunication) that "compressed" time and space allowed for increasingly rapid rates of global interchange. In the 20th century, [road vehicles](http://en.wikipedia.org/wiki/Road_vehicle) and [airlines](http://en.wikipedia.org/wiki/Airline) made transportation even faster, and the advent of electronic communications, most notably [mobile phones](http://en.wikipedia.org/wiki/Mobile_phones) and [the Internet](http://en.wikipedia.org/wiki/The_Internet), connected billions of people in new ways leading into the [21st century](http://en.wikipedia.org/wiki/21st_century).

## OPEC

The **Organization of the Petroleum Exporting Countries**  is an intergovernmental organization of twelve oil-producing countries made up of  [Algeria](http://en.wikipedia.org/wiki/Algeria),  [Angola](http://en.wikipedia.org/wiki/Angola),  [Ecuador](http://en.wikipedia.org/wiki/Ecuador),  [Iran](http://en.wikipedia.org/wiki/Iran), [Iraq](http://en.wikipedia.org/wiki/Iraq),  [Kuwait](http://en.wikipedia.org/wiki/Kuwait),  [Libya](http://en.wikipedia.org/wiki/Libya),  [Nigeria](http://en.wikipedia.org/wiki/Nigeria), [Qatar](http://en.wikipedia.org/wiki/Qatar), [Saudi Arabia](http://en.wikipedia.org/wiki/Saudi_Arabia), the [United Arab Emirates](http://en.wikipedia.org/wiki/United_Arab_Emirates), and [Venezuela](http://en.wikipedia.org/wiki/Venezuela). OPEC has maintained its headquarters in [Vienna](http://en.wikipedia.org/wiki/Vienna) since 1965,and hosts regular meetings among the oil ministers of its Member Countries. [Indonesia](http://en.wikipedia.org/wiki/Indonesia) withdrew in 2008 after it became a net importer of oil, but stated it would likely return if it became a net exporter again.

According to its [statutes](http://en.wikipedia.org/wiki/Statutes), one of the principal goals is the determination of the best means for safeguarding the organization's interests, individually and collectively. It also pursues ways and means of ensuring the stabilization of prices in international [oil markets](http://en.wikipedia.org/wiki/Oil_industry) with a view to eliminating harmful and unnecessary fluctuations; giving due regard at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient and regular supply of [petroleum](http://en.wikipedia.org/wiki/Petroleum) to consuming nations, and a fair return on their capital to those investing in the petroleum industry.

OPEC's influence on the market has been widely criticized, since it became effective in determining production and prices. Arab members of OPEC alarmed the developed world when they used the “oil weapon” during the [Yom Kippur War](http://en.wikipedia.org/wiki/Yom_Kippur_War) by implementing oil embargoes and initiating the [1973 oil crisis](http://en.wikipedia.org/wiki/1973_oil_crisis). Although largely political explanations for the timing and extent of the OPEC price increases are also valid, from OPEC’s point of viewthese changes were triggered largely by previous [unilateral changes](http://en.wikipedia.org/wiki/Nixon_shock) in the world financial system and the ensuing period of high inflation in both the developed and developing world. This explanation encompasses OPEC actions both before and after the outbreak of hostilities in October 1973, and concludes that “OPEC countries were only 'staying even' by dramatically raising the dollar price of oil.”

OPEC's ability to control the [price of oil](http://en.wikipedia.org/wiki/Price_of_oil) has diminished somewhat since then, due to the subsequent discovery and development of large [oil reserves](http://en.wikipedia.org/wiki/Oil_reserves) in [Alaska](http://en.wikipedia.org/wiki/Alaska), the [North Sea](http://en.wikipedia.org/wiki/North_Sea), [Canada](http://en.wikipedia.org/wiki/Canada), the [Gulf of Mexico](http://en.wikipedia.org/wiki/Gulf_of_Mexico), the opening up of Russia, and market modernization. As of November 2010, OPEC members collectively hold 79% of world crude oil reserves and 44% of the world’s crude oil production capacity, affording them some control over the global market. The next largest group of producers, members of the [OECD](http://en.wikipedia.org/wiki/OECD) and the [Post-Soviet states](http://en.wikipedia.org/wiki/Post-Soviet_states) produced only 23.8% and 14.8%, respectively, of the world's total oil production. As early as 2003, concerns that OPEC members had little excess pumping capacity sparked speculation that their influence on crude oil prices would begin to slip.

# VI Money, Central Bank and Monetary Policy

## Federal Reserve System

The **Federal Reserve System** (also known as the **Federal Reserve**, and informally as the **Fed**) is the [central banking](http://en.wikipedia.org/wiki/Central_bank) system of the United States. It was created on December 23, 1913 with the enactment of the [Federal Reserve Act](http://en.wikipedia.org/wiki/Federal_Reserve_Act). Over time, the roles and responsibilities of the Federal Reserve System have expanded and its structure has evolved. Events such as the [Great Depression](http://en.wikipedia.org/wiki/Great_Depression) were major factors leading to changes in the system.

The Congress established three key objectives for monetary policy—maximum employment, stable prices, and moderate long-term interest rates—in the Federal Reserve Act.  The first two objectives are sometimes referred to as the Federal Reserve's dual mandate. Its duties have expanded over the years, and today, according to official Federal Reserve documentation, include conducting the nation's [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy), supervising and regulating banking institutions, maintaining the stability of the financial system and providing financial services to [depository institutions](http://en.wikipedia.org/wiki/Depository_institution), the U.S. government, and foreign official institutions. The Fed also conducts research into the economy and releases numerous publications, such as the [Beige Book](http://en.wikipedia.org/wiki/Beige_Book).

The Federal Reserve System's structure is composed of the presidentially appointed [Board of Governors](http://en.wikipedia.org/wiki/Federal_Reserve_Board_of_Governors) (or Federal Reserve Board), the [Federal Open Market Committee](http://en.wikipedia.org/wiki/Federal_Open_Market_Committee) (FOMC), twelve regional [Federal Reserve Banks](http://en.wikipedia.org/wiki/Federal_Reserve_Bank) located in major cities throughout the nation, numerous privately owned U.S. member banks and various advisory councils. The FOMC is the committee responsible for setting monetary policy and consists of all seven members of the Board of Governors and the twelve regional bank presidents, though only five bank presidents vote at any given time. The Federal Reserve System has both private and public components, and was designed to serve the interests of both the general public and private bankers. The result is a structure that is considered unique among central banks. It is also unusual in that an entity outside of the central bank, namely the [United States Department of the Treasury](http://en.wikipedia.org/wiki/United_States_Department_of_the_Treasury), creates the [currency](http://en.wikipedia.org/wiki/Currency) used.[

According to the Board of Governors, the Federal Reserve is independent within government in that "its monetary policy decisions do not have to be approved by the President or anyone else in the executive or legislative branches of government." Its authority is derived from statutes enacted by the [U.S. Congress](http://en.wikipedia.org/wiki/U.S._Congress) and the System is subject to congressional oversight. The members of the Board of Governors, including its chairman and vice-chairman, are chosen by the [President](http://en.wikipedia.org/wiki/President_of_the_United_States) and confirmed by the Senate. The government also exercises some control over the Federal Reserve by appointing and setting the salaries of the system's highest-level employees. Thus the Federal Reserve has both private and public aspects. The U.S. Government receives all of the system's annual profits, after a statutory [dividend](http://en.wikipedia.org/wiki/Dividend) of 6% on member banks' capital investment is paid, and an account surplus is maintained. In 2010, the Federal Reserve made a profit of $82 billion and transferred $79 billion to the [U.S. Treasury](http://en.wikipedia.org/wiki/U.S._Treasury). This was followed at the end of 2011 with a transfer of $77 billion in profits to the U.S. Treasury Department.

## Fiscal policy

In [economics](http://en.wikipedia.org/wiki/Economics) and [political science](http://en.wikipedia.org/wiki/Political_science), **fiscal policy** is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are government taxation and expenditure. Changes in the level and composition of taxation and government spending can impact the following variables in the economy:

* [Aggregate demand](http://en.wikipedia.org/wiki/Aggregate_demand) and the level of economic activity;
* The pattern of resource allocation;
* The distribution of income.

Fiscal policy refers to the use of the government budget to influence economic activity.

### Methods of funding

Governments [spend money](http://en.wikipedia.org/wiki/Government_expenditure) on a wide variety of things, from the military and police to services like education and healthcare, as well as [transfer payments](http://en.wikipedia.org/wiki/Transfer_payment) such as welfare benefits. This expenditure can be [funded](http://en.wikipedia.org/wiki/Revenue) in a number of different ways:

* [Taxation](http://en.wikipedia.org/wiki/Taxation)
* [Seigniorage](http://en.wikipedia.org/wiki/Seigniorage), the benefit from printing [money](http://en.wikipedia.org/wiki/Money)
* [Borrowing](http://en.wikipedia.org/wiki/Borrowing) money from the population or from abroad
* [Consumption](http://en.wikipedia.org/wiki/Consumption) of fiscal reserves
* [Sale](http://en.wikipedia.org/wiki/Sale) of fixed assets (e.g., [land](http://en.wikipedia.org/wiki/Land))

## Income

**Income** is the consumption and savings opportunity gained by an entity within a specified time frame, which is generally expressed in monetary terms. However, for households and individuals, "income is the sum of all the wages, salaries, profits, interests payments, rents and other forms of earnings received... in a given period of time." For firms, income generally refers to net-profit: what remains of [revenue](http://en.wikipedia.org/wiki/Revenue) after expenses have been subtracted. In the field of [public economics](http://en.wikipedia.org/wiki/Public_economics), it may refer to the accumulation of both monetary and non-monetary consumption ability, the former being used as a proxy for total income.

## Tax

To **tax** is to impose a financial charge or other levy upon a **taxpayer** (an individual or [legal entity](http://en.wikipedia.org/wiki/Legal_person)) by a [state](http://en.wikipedia.org/wiki/State_(polity)) or the functional equivalent of a state such that failure to pay is punishable by law. Taxes are also imposed by many [administrative divisions](http://en.wikipedia.org/wiki/Administrative_division). Taxes consist of [direct tax](http://en.wikipedia.org/wiki/Direct_tax) or [indirect tax](http://en.wikipedia.org/wiki/Indirect_tax), and may be paid in [money](http://en.wikipedia.org/wiki/Money) or as its labour equivalent (often but not always unpaid labour).

## Value added tax

A **value added tax** (**VAT**) is a form of [consumption tax](http://en.wikipedia.org/wiki/Consumption_tax). From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the [value added](http://en.wikipedia.org/wiki/Value_added) to a product, material or service, from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs.

The value added to a product by a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a [sales tax](http://en.wikipedia.org/wiki/Sales_tax) in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products.

## European Union

The **European Union** (**EU**)  is an [economic](http://en.wikipedia.org/wiki/Economic_and_Monetary_Union_of_the_European_Union) and political union or [confederation](http://en.wikipedia.org/wiki/Confederation#European_Union) of 27 [member states](http://en.wikipedia.org/wiki/Member_state_of_the_European_Union) which are located primarily in [Europe](http://en.wikipedia.org/wiki/Europe). The EU traces its origins from the [European Coal and Steel Community](http://en.wikipedia.org/wiki/European_Coal_and_Steel_Community) (ECSC) and the [European Economic Community](http://en.wikipedia.org/wiki/European_Economic_Community) (EEC), formed by [six countries](http://en.wikipedia.org/wiki/Inner_Six) in 1958. In the intervening years the EU has grown in size by [the accession of new member states](http://en.wikipedia.org/wiki/Enlargement_of_the_European_Union) and in power by the addition of policy areas to its remit. The [Maastricht Treaty](http://en.wikipedia.org/wiki/Maastricht_Treaty) established the European Union under its current name in 1993. The latest amendment to the constitutional basis of the EU, the [Treaty of Lisbon](http://en.wikipedia.org/wiki/Treaty_of_Lisbon), came into force in 2009.

The EU operates through a system of [supranational](http://en.wikipedia.org/wiki/Supranational_union) independent institutions and [intergovernmental](http://en.wikipedia.org/wiki/Intergovernmentalism) negotiated decisions by the member states. Important [institutions of the EU](http://en.wikipedia.org/wiki/Institutions_of_the_European_Union) include the [European Commission](http://en.wikipedia.org/wiki/European_Commission), the [Council of the European Union](http://en.wikipedia.org/wiki/Council_of_the_European_Union), the [European Council](http://en.wikipedia.org/wiki/European_Council), the [Court of Justice of the European Union](http://en.wikipedia.org/wiki/Court_of_Justice_of_the_European_Union), and the [European Central Bank](http://en.wikipedia.org/wiki/European_Central_Bank). The [European Parliament](http://en.wikipedia.org/wiki/European_Parliament) is elected every five years by [EU citizens](http://en.wikipedia.org/wiki/Citizenship_of_the_European_Union).

The EU has developed a [single market](http://en.wikipedia.org/wiki/Single_market) through a standardized system of laws which apply in all member states. Within the [Schengen Area](http://en.wikipedia.org/wiki/Schengen_Area) (which includes EU and non-EU states) passport controls have been abolished. EU policies aim to ensure the [free movement of people, goods, services, and capital](http://en.wikipedia.org/wiki/Internal_Market_(European_Union)), enact legislation in justice and home affairs, and maintain common policies on trade, [agriculture](http://en.wikipedia.org/wiki/Common_Agricultural_Policy), [fisheries](http://en.wikipedia.org/wiki/Common_Fisheries_Policy) and [regional development](http://en.wikipedia.org/wiki/Regional_policy_of_the_European_Union). A monetary union, the [eurozone](http://en.wikipedia.org/wiki/Eurozone), was established in 1999 and, as of January 2012, is composed of 17 member states. Through the [Common Foreign and Security Policy](http://en.wikipedia.org/wiki/Common_Foreign_and_Security_Policy) the EU has developed a limited role in [external relations](http://en.wikipedia.org/wiki/Foreign_relations_of_the_European_Union) and [defence](http://en.wikipedia.org/wiki/Military_of_the_European_Union). Permanent [diplomatic missions](http://en.wikipedia.org/wiki/List_of_diplomatic_missions_of_the_European_Union) have been established around the world. The EU is represented at the [United Nations](http://en.wikipedia.org/wiki/European_Union_and_the_United_Nations), the [WTO](http://en.wikipedia.org/wiki/World_Trade_Organization), the [G8](http://en.wikipedia.org/wiki/European_Union_and_the_G8) and the [G-20](http://en.wikipedia.org/wiki/G-20_major_economies).



As of 2010, with a combined population of over 500 million inhabitants, or 7.3% of the world population, the EU generated a nominal GDP of 16.2 trillion US dollars (larger than any single country in the world), representing 20% of the global GDP when measured in terms of [purchasing power parity](http://en.wikipedia.org/wiki/Purchasing_power_parity).

The European Union is composed of 27 [sovereign](http://en.wikipedia.org/wiki/Sovereign_state) member states: [Austria](http://en.wikipedia.org/wiki/Austria), [Belgium](http://en.wikipedia.org/wiki/Belgium), [Bulgaria](http://en.wikipedia.org/wiki/Bulgaria), [Cyprus](http://en.wikipedia.org/wiki/Cyprus), the [Czech Republic](http://en.wikipedia.org/wiki/Czech_Republic), [Denmark](http://en.wikipedia.org/wiki/Denmark), [Estonia](http://en.wikipedia.org/wiki/Estonia), [Finland](http://en.wikipedia.org/wiki/Finland), [France](http://en.wikipedia.org/wiki/France), [Germany](http://en.wikipedia.org/wiki/Germany),[Greece](http://en.wikipedia.org/wiki/Greece), [Hungary](http://en.wikipedia.org/wiki/Hungary), [Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland), [Italy](http://en.wikipedia.org/wiki/Italy), [Latvia](http://en.wikipedia.org/wiki/Latvia), [Lithuania](http://en.wikipedia.org/wiki/Lithuania), [Luxembourg](http://en.wikipedia.org/wiki/Luxembourg), [Malta](http://en.wikipedia.org/wiki/Malta), the [Netherlands](http://en.wikipedia.org/wiki/Netherlands), [Poland](http://en.wikipedia.org/wiki/Poland), [Portugal](http://en.wikipedia.org/wiki/Portugal), [Romania](http://en.wikipedia.org/wiki/Romania), [Slovakia](http://en.wikipedia.org/wiki/Slovakia), [Slovenia](http://en.wikipedia.org/wiki/Slovenia), [Spain](http://en.wikipedia.org/wiki/Spain), [Sweden](http://en.wikipedia.org/wiki/Sweden), and the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom). The Union's membership has grown from the original [six founding states](http://en.wikipedia.org/wiki/Inner_Six)—Belgium, France, (then-[West) Germany](http://en.wikipedia.org/wiki/West_Germany), Italy, Luxembourg and the Netherlands—to the present day 27 by successive enlargements as countries acceded to the [treaties](http://en.wikipedia.org/wiki/Treaties_of_the_European_Union) and by doing so, pooled their sovereignty in exchange for representation in the institutions.

To join the EU a country must meet the [Copenhagen criteria](http://en.wikipedia.org/wiki/Copenhagen_criteria), defined at the 1993 Copenhagen European Council. These require a stable democracy that respects human rights and the [rule of law](http://en.wikipedia.org/wiki/Rule_of_law); a functioning [market economy](http://en.wikipedia.org/wiki/Market_economy) capable of competition within the EU; and the acceptance of the obligations of membership, including EU law. Evaluation of a country's fulfilment of the criteria is the responsibility of the European Council.

No member state has ever left the Union, although [Greenland](http://en.wikipedia.org/wiki/Greenland) (an [autonomous province](http://en.wikipedia.org/wiki/Autonomous_area) of Denmark) withdrew in 1985.[[50]](http://en.wikipedia.org/wiki/European_Union#cite_note-52) The [Lisbon Treaty](http://en.wikipedia.org/wiki/Treaty_of_Lisbon) now provides a clause dealing with how a member leaves the EU.[[51]](http://en.wikipedia.org/wiki/European_Union#cite_note-53)

[Croatia](http://en.wikipedia.org/wiki/Croatia) is expected to become the 28th member state of the EU on 1 July 2013 after a [referendum on EU membership](http://en.wikipedia.org/wiki/Croatian_European_Union_membership_referendum,_2012) was approved by Croatian voters on 22 January 2012. The Croatian accession treaty still has to be ratified by all current EU member states.

## Economic union

An **economic union** is a type of [trade bloc](http://en.wikipedia.org/wiki/Trade_bloc) which is composed of a [common market](http://en.wikipedia.org/wiki/Common_market) with a [customs union](http://en.wikipedia.org/wiki/Customs_union). The participant countries have both common policies on product regulation, [freedom of movement](http://en.wikipedia.org/wiki/Freedom_of_movement) of [goods](http://en.wikipedia.org/wiki/Good_(economics)), [services](http://en.wikipedia.org/wiki/Service_(economics)) and the [factors of production](http://en.wikipedia.org/wiki/Factors_of_production) ([capital](http://en.wikipedia.org/wiki/Capital_(economics)) and labour) and a common [external trade](http://en.wikipedia.org/wiki/External_trade) policy. The countries often share a common currency.

Purposes for establishing a economic union normally include increasing [economic efficiency](http://en.wikipedia.org/wiki/Economic_efficiency) and establishing closer political and cultural ties between the member countries. Economic union is established through [trade pact](http://en.wikipedia.org/wiki/Trade_pact).

## Competition Commission

## The role of the Competition Commission

The Competition Commission (CC) is an independent public body which conducts in-depth inquiries into mergers, markets and the regulation of the major regulated industries, ensuring healthy competition between companies in the UK for the benefit of companies, customers and the economy.

All of the CC’s inquiries are undertaken following a reference made by another authority, most often the [Office of Fair Trading](http://en.wikipedia.org/wiki/Office_of_Fair_Trading) (OFT) (which refers merger and market inquiries), or one of the sector regulators (which can refer markets within their sectoral jurisdictions or make regulatory references in relation to price controls and other licence modifications) or as a result of an appeal from a decision of one of the sector regulators.

# VII World Economy

The **world economy**, or **global economy**, generally refers to the [economy](http://en.wikipedia.org/wiki/Economy), which is based on economies of all of the world's [countries](http://en.wikipedia.org/wiki/Countries), national economies. Also global economy can be seen as the economy of [global society](http://en.wikipedia.org/wiki/Global_society) and national economies – as economies of local societies, making the global one. It can be evaluated in various kind of ways. For instance, depending on the model used, the valuation that is arrived at can be represented in a certain [currency](http://en.wikipedia.org/wiki/Currency), such as 2006 [US dollars](http://en.wikipedia.org/wiki/United_States_dollar) or 2005 [Euros](http://en.wikipedia.org/wiki/Euros).

It is inseparable from the [geography and ecology of Earth](http://en.wikipedia.org/wiki/Earth), and is therefore somewhat of a misnomer, since, while definitions and representations of the "world economy" vary widely, they must at a minimum exclude any consideration of resources or value based outside of the [Earth](http://en.wikipedia.org/wiki/Earth). For example, while attempts could be made to calculate the value of currently unexploited mining opportunities in unclaimed territory in [Antarctica](http://en.wikipedia.org/wiki/Antarctica), the same opportunities on [Mars](http://en.wikipedia.org/wiki/Mars) would not be considered a part of the world economy—even if currently exploited in some way—and could be considered of latent value only in the same way as uncreated [intellectual property](http://en.wikipedia.org/wiki/Intellectual_property), such as a previously unconceived invention.

Beyond the minimum standard of concerning value in production, use, and exchange on the planet Earth, definitions, representations, models, and valuations of the world economy vary widely.

It is common to limit questions of the world economy exclusively to [human economic activity](http://en.wikipedia.org/wiki/Economics), and the world economy is typically judged in monetary terms, even in cases in which there is no efficient market to help valuate certain goods or services, or in cases in which a lack of independent research or government cooperation makes establishing figures difficult. Typical examples are [illegal drugs](http://en.wikipedia.org/wiki/Illegal_drug_trade) and other [black market goods](http://en.wikipedia.org/wiki/Underground_economy), which by any standard are a part of the world economy, but for which there is by definition no legal market of any kind.

However, even in cases in which there is a clear and efficient market to establish a monetary value, economists do not typically use the current or official exchange rate to translate the monetary units of this market into a single unit for the world economy, since exchange rates typically do not closely reflect [worldwide](http://en.wikipedia.org/wiki/World) value, for example in cases where the volume or price of transactions is closely regulated by the government.

Rather, market valuations in a local currency are typically translated to a single monetary unit using the idea of [purchasing power](http://en.wikipedia.org/wiki/Purchasing_power_parity). This is the method used below, which is used for estimating worldwide economic activity in terms of [real](http://en.wikipedia.org/wiki/Purchasing_power_parity) [US dollars](http://en.wikipedia.org/wiki/United_States_dollar) or Euros. However, the world economy can be evaluated and expressed in many more ways. It is unclear, for example, how many of the world's [7.01 billion people](http://en.wikipedia.org/wiki/World_population) have most of their economic activity reflected in these valuations.

In 2011, the largest economies in the world with more than $2 trillion, €1.25 trillion by nominal GDP were the [United States](http://en.wikipedia.org/wiki/United_States), [China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China), [Japan](http://en.wikipedia.org/wiki/Japan), [Germany](http://en.wikipedia.org/wiki/Germany), [France](http://en.wikipedia.org/wiki/France), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), [Brazil](http://en.wikipedia.org/wiki/Brazil), and [Italy](http://en.wikipedia.org/wiki/Italy). The largest economies in the world with more than $2 trillion, €1.25 trillion by GDP (PPP) were the [United States](http://en.wikipedia.org/wiki/United_States), [China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China), [Japan](http://en.wikipedia.org/wiki/Japan), [India](http://en.wikipedia.org/wiki/India), [Germany](http://en.wikipedia.org/wiki/Germany), [Russia](http://en.wikipedia.org/wiki/Russia), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), [Brazil](http://en.wikipedia.org/wiki/Brazil), and [France](http://en.wikipedia.org/wiki/France).

## International Monetary Fund



The **International Monetary Fund** (**IMF**) is an [international organization](http://en.wikipedia.org/wiki/International_organization) that was created on July 22, 1944 at the [Bretton Woods Conference](http://en.wikipedia.org/wiki/Bretton_Woods_Conference) and came into existence on December 27, 1945 when 29 countries signed the Articles of Agreement. It originally had 45 members. The IMF's stated goal was to stabilize exchange rates and assist the reconstruction of the world’s international payment system post [World War II](http://en.wikipedia.org/wiki/World_War_II). Countries contribute money to a pool through a quota system from which countries with payment imbalances can borrow funds on a temporary basis. Through this activity and others such as surveillance of its members' economies and policies, the IMF works to improve the economies of its member countries.The IMF describes itself as “an organization of 188 countries (as of April 2012), working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.” The organization's stated objectives are to promote international economic cooperation, [international trade](http://en.wikipedia.org/wiki/International_trade), employment, and exchange rate stability, including by making financial resources available to member countries to meet [balance of payments](http://en.wikipedia.org/wiki/Balance_of_payments) needs. Its headquarters are in [Washington, D.C.](http://en.wikipedia.org/wiki/Washington,_D.C.)

## World Trade Organization

The **World Trade Organization** (**WTO**) is an organization that intends to supervise and [liberalize](http://en.wikipedia.org/wiki/Free_trade) [international trade](http://en.wikipedia.org/wiki/International_trade). The organization officially commenced on January 1, 1995 under the [Marrakech Agreement](http://en.wikipedia.org/wiki/Marrakech_Agreement), replacing the [General Agreement on Tariffs and Trade](http://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments and ratified by their [parliaments](http://en.wikipedia.org/wiki/Parliament)

## U.S. Securities and Exchange Commission

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The U.S. Securities and Exchange Commission (frequently abbreviated SEC) is a [federal agency](http://en.wikipedia.org/wiki/List_of_United_States_federal_agencies)which holds primary responsibility for enforcing the federal [securities](http://en.wikipedia.org/wiki/Security_(finance)) laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

## National Stock Exchange

The first stock exchange in America that was completely electronically automated. All members of the exchange are registered broker-dealers. This exchange created the National Securities Trading System (NSTS), which performs all auction market tasks on an automated basis.  
Read more: <http://www.investopedia.com/terms/n/national-stock-exchange.asp#ixzz1x1BJLUsw>

## North American Free Trade Agreement

The **North American Free Trade Agreement** (**NAFTA**) is an agreement signed by the governments of [Canada](http://en.wikipedia.org/wiki/Canada), [Mexico](http://en.wikipedia.org/wiki/Mexico), and the [United States](http://en.wikipedia.org/wiki/United_States), creating a trilateral [trade bloc](http://en.wikipedia.org/wiki/Trade_bloc) in North America. The agreement came into force on January 1, 1994. It superseded the [Canada – United States Free Trade Agreement](http://en.wikipedia.org/wiki/Canada_%E2%80%93_United_States_Free_Trade_Agreement) between the U.S. and Canada. In terms of combined [GDP](http://en.wikipedia.org/wiki/GDP) of its members, as of 2010 the trade bloc is the [largest in the world](http://en.wikipedia.org/wiki/Trade_bloc#Most_active_regional_blocs).

NAFTA has two supplements: the [North American Agreement on Environmental Cooperation](http://en.wikipedia.org/wiki/North_American_Agreement_on_Environmental_Cooperation) (NAAEC) and the North American Agreement on Labour Cooperation (NAALC).

## Central European Free Trade Agreement

The **Central European Free Trade Agreement** (**CEFTA**) is a [trade agreement](http://en.wikipedia.org/wiki/Trade_agreement) between non-[EU](http://en.wikipedia.org/wiki/European_Union) countries in [Southeast Europe](http://en.wikipedia.org/wiki/Southeast_Europe).

## NATO

The **North Atlantic Treaty Organization** or **NATO** (also called the **(North) Atlantic Alliance**, is an [intergovernmental](http://en.wikipedia.org/wiki/Intergovernmental_organization) [military alliance](http://en.wikipedia.org/wiki/Military_alliance) based on the [North Atlantic Treaty](http://en.wikipedia.org/wiki/North_Atlantic_Treaty) which was signed on 4 April 1949. The organization constitutes a system of [collective defence](http://en.wikipedia.org/wiki/Collective_defence) whereby its member states agree to mutual defense in response to an attack by any external party. NATO's headquarters are in [Brussels](http://en.wikipedia.org/wiki/Brussels), Belgium, one of the 28 member states across North America and Europe, the newest of which, Albania and Croatia, joined in April 2009. An additional 22 countries participate in NATO's [Partnership for Peace](http://en.wikipedia.org/wiki/Partnership_for_Peace), with 15 other countries involved in institutionalized dialogue programs. The combined military spending of all NATO members constitutes over 70% of [the world's defence spending](http://en.wikipedia.org/wiki/List_of_countries_by_military_expenditures).

Organization for Economic Co-operation and Development

The **Organisation for Economic Co-operation and Development** is an [international economic organisation](http://en.wikipedia.org/wiki/International_organization) of 34 countries founded in 1961 to stimulate economic progress and world trade. It is a forum of countries committed to [democracy](http://en.wikipedia.org/wiki/Democracy) and the [market economy](http://en.wikipedia.org/wiki/Market_economy), providing a platform to compare policy experiences, seek answers to common problems, identify good practices, and co-ordinate domestic and international policies of its members. The OECD's headquarters are at the [*Château de la Muette*](http://en.wikipedia.org/wiki/Ch%C3%A2teau_de_la_Muette) in [Paris](http://en.wikipedia.org/wiki/Paris), France.

## G8

The **Group of Eight** (**G8**) is a forum for the governments of eight large economies. (It excludes some members of the actual eight largest which are China, Brazil and India). The forum originated with a 1975 summit hosted by France that brought together representatives of six governments: [France](http://en.wikipedia.org/wiki/France), [Germany](http://en.wikipedia.org/wiki/Germany), [Italy](http://en.wikipedia.org/wiki/Italy), [Japan](http://en.wikipedia.org/wiki/Japan), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), and the [United States](http://en.wikipedia.org/wiki/United_States), thus leading to the name **Group of Six** or **G6**. The summit became known as the **Group of Seven** or **G7** the following year with the addition of [Canada](http://en.wikipedia.org/wiki/Canada). In 1997, [Russia](http://en.wikipedia.org/wiki/Russia) was added to group which then became known as the G8. The [European Union](http://en.wikipedia.org/wiki/European_Union) is represented within the G8 but cannot host or chair summits.

"G8" can refer to the member states in aggregate or to the annual [summit meeting](http://en.wikipedia.org/wiki/Summit_meeting) of the G8 [heads of government](http://en.wikipedia.org/wiki/Heads_of_government). The former term, G6, is now frequently applied to the [six most populous countries within the European Union](http://en.wikipedia.org/wiki/G6_(EU)). G8 ministers also meet throughout the year, such as the G7/8 finance ministers (who meet four times a year), G8 foreign ministers, or G8 environment ministers.

Collectively, the G8 nations comprise [51.0% of 2011 global nominal GDP](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)) and [42.5% of global GDP (PPP)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)). Each calendar year, the responsibility of hosting the G8 rotates through the member states in the following order: France, United States, United Kingdom, Russia, Germany, Japan, Italy, and Canada. The holder of the [presidency](http://en.wikipedia.org/wiki/Presidency) sets the agenda, hosts the summit for that year, and determines which ministerial meetings will take place. Lately, both France and the United Kingdom have expressed a desire to expand the group to include five developing countries, referred to as the **Outreach Five** (O5) or the Plus Five: [Brazil](http://en.wikipedia.org/wiki/Brazil), [People's Republic of China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China), [India](http://en.wikipedia.org/wiki/India), [Mexico](http://en.wikipedia.org/wiki/Mexico), and [South Africa](http://en.wikipedia.org/wiki/South_Africa). These countries have participated as guests in previous meetings, which are sometimes called [G8+5](http://en.wikipedia.org/wiki/G8%2B5).

With the [G-20 major economies](http://en.wikipedia.org/wiki/G-20_major_economies) growing in stature since the [2008 Washington summit](http://en.wikipedia.org/wiki/2008_G-20_Washington_summit), world leaders from the group announced at their [Pittsburgh summit](http://en.wikipedia.org/wiki/2009_G-20_Pittsburgh_summit) on September 25, 2009, that the group will replace the G8 as the main economic council of wealthy nations.

## History

[](http://en.wikipedia.org/wiki/File:34th_G8_summit_member_20080707.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:34th_G8_summit_member_20080707.jpg)

At the 34th G8 Summit at [Toyako, Hokkaido](http://en.wikipedia.org/wiki/Toyako,_Hokkaido), formal photo during Tanabata matsuri event for world leaders – Silvio Berlusconi (Italy), Dmitry Medvedev (Russia), Angela Merkel (Germany), Gordon Brown (UK), Yasuo Fukuda (Japan), George W. Bush (U.S.), Stephen Harper (Canada), Nicolas Sarkozy (France), José Barroso (EU) – July 7, 2008.

The concept of a forum for the world's major industrialized [democracies](http://en.wikipedia.org/wiki/Democracy) emerged following the [1973 oil crisis](http://en.wikipedia.org/wiki/1973_oil_crisis). In 1974, a series of meetings in the library of the [White House](http://en.wikipedia.org/wiki/White_House) in Washington, D.C. was known as the "Library Group".[[5]](http://en.wikipedia.org/wiki/G8#cite_note-4) This was an informal gathering of senior financial officials from the United States, the United Kingdom, [West Germany](http://en.wikipedia.org/wiki/West_Germany), Japan and France.[[6]](http://en.wikipedia.org/wiki/G8#cite_note-5) In 1975, French President [Valéry Giscard d'Estaing invited](http://en.wikipedia.org/wiki/Val%C3%A9ry_Giscard_d%27Estaing) the [heads of government](http://en.wikipedia.org/wiki/Heads_of_government) from West Germany, Italy, Japan, the United Kingdom and the United States to a summit in [Château de Rambouillet](http://en.wikipedia.org/wiki/Ch%C3%A2teau_de_Rambouillet). The six leaders agreed to an annual meeting organized under a rotating presidency, forming the Group of Six (G6). The following year, Canada joined the group at the behest of Germany's Chancellor [Helmut Schmidt](http://en.wikipedia.org/wiki/Helmut_Schmidt) and [U.S. President](http://en.wikipedia.org/wiki/President_of_the_United_States) [Gerald Ford](http://en.wikipedia.org/wiki/Gerald_Ford)[[7]](http://en.wikipedia.org/wiki/G8#cite_note-6) and the group became the Group of Seven ([G7](http://en.wikipedia.org/wiki/G7)). The [European Union](http://en.wikipedia.org/wiki/European_Union) is represented by the [President of the European Commission](http://en.wikipedia.org/wiki/President_of_the_European_Commission) and the leader of the country that holds the [Presidency of the Council of the European Union](http://en.wikipedia.org/wiki/Presidency_of_the_Council_of_the_European_Union). The [President of the European Commission](http://en.wikipedia.org/wiki/President_of_the_European_Commission) has attended all meetings since it was first invited by the United Kingdom in 1977[[8]](http://en.wikipedia.org/wiki/G8#cite_note-7) and the [Council President](http://en.wikipedia.org/wiki/President_of_the_European_Council) now also regularly attends.

Following [1994's G7 summit in Naples](http://en.wikipedia.org/wiki/20th_G7_summit), Russian officials held separate meetings with leaders of the G7 after the group's summits. This informal arrangement was dubbed the Political 8 (P8) – or, colloquially, the G7+1. At the invitation of [Prime Minister of the United Kingdom](http://en.wikipedia.org/wiki/Prime_Minister_of_the_United_Kingdom) [Tony Blair](http://en.wikipedia.org/wiki/Tony_Blair) and [President of the United States](http://en.wikipedia.org/wiki/President_of_the_United_States) [Bill Clinton](http://en.wikipedia.org/wiki/Bill_Clinton),[[9]](http://en.wikipedia.org/wiki/G8#cite_note-8) Russia formally joined the group in 1997, resulting in the Group of Eight, or G8.

### Food

A major focus of the G8 since 2009 has been the global supply of food.  At the 2009 L'Aquila summit, the G8's members promised to contribute $20 billion to the issue over three years. Since then, only 22% of the promised funds have been delivered.

At the 2012 summit, President Obama plans to ask G8 leaders to adopt a policy that would privatize global food investment.

## Structure and activities

[](http://en.wikipedia.org/wiki/File:33rdG8Leaders.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:33rdG8Leaders.jpg)

Leaders of the G8 on 7 June 2007, in [Heiligendamm](http://en.wikipedia.org/wiki/Heiligendamm), [Germany](http://en.wikipedia.org/wiki/Germany)

By design, the G8 deliberately lacks an administrative structure like those for international organizations, such as the [United Nations](http://en.wikipedia.org/wiki/United_Nations) or the [World Bank](http://en.wikipedia.org/wiki/World_Bank). The group does not have a permanent secretariat or offices for its members.

The presidency of the group rotates annually among the member countries, with each new term beginning on 1 January of the year. The country holding the presidency is responsible for planning and hosting a series of ministerial-level meetings, leading up to a mid-year summit attended by the heads of government. The president of the European Commission participates as an equal in all summit events.

The ministerial meetings bring together ministers responsible for various portfolios to discuss issues of mutual or global concern. The ranges of topics include health, law enforcement, labor, economic and social development, energy, environment, foreign affairs, justice and interior, terrorism, and trade. There are also a separate set of meetings known as the [G8+5](http://en.wikipedia.org/wiki/G8%2B5), created during the 2005 Gleneagles, Scotland summit, that is attended by finance and energy ministers from all eight member countries in addition to the five "outreach countries" which are also known as the [Group of Five](http://en.wikipedia.org/wiki/Group_of_Five) — [Brazil](http://en.wikipedia.org/wiki/Brazil), [People's Republic of China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China), [India](http://en.wikipedia.org/wiki/India), [Mexico](http://en.wikipedia.org/wiki/Mexico), and [South Africa](http://en.wikipedia.org/wiki/South_Africa).

In June 2005, justice ministers and interior ministers from the G8 countries agreed to launch an international database on [pedophiles](http://en.wikipedia.org/wiki/Pedophile). The G8 officials also agreed to pool data on [terrorism](http://en.wikipedia.org/wiki/Terrorism), subject to restrictions by privacy and security laws in individual countries.

### Global energy

[](http://en.wikipedia.org/wiki/File:G8_leaders_confer_together.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:G8_leaders_confer_together.jpg)

G8 leaders confer during the [2009 summit](http://en.wikipedia.org/wiki/35th_G8_summit) in [L'Aquila](http://en.wikipedia.org/wiki/L%27Aquila) ([Abruzzo](http://en.wikipedia.org/wiki/Abruzzo), [Italy](http://en.wikipedia.org/wiki/Italy)).

At the [Heiligendamm Summit](http://en.wikipedia.org/wiki/33rd_G8_summit) in 2007, the G8 acknowledged a proposal from the EU for a worldwide initiative on [efficient energy use](http://en.wikipedia.org/wiki/Efficient_energy_use). They agreed to explore, along with the [International Energy Agency](http://en.wikipedia.org/wiki/International_Energy_Agency), the most effective means to promote energy efficiency internationally. A year later, on 8 June 2008, the G8 along with China, [India](http://en.wikipedia.org/wiki/India), [South Korea](http://en.wikipedia.org/wiki/South_Korea) and the [European Community](http://en.wikipedia.org/wiki/European_Community) established the [International Partnership for Energy Efficiency Cooperation](http://en.wikipedia.org/wiki/International_Partnership_for_Energy_Efficiency_Cooperation), at the Energy Ministerial meeting hosted by Japan holding 2008 G8 Presidency, in [Aomori](http://en.wikipedia.org/wiki/Aomori,_Aomori).[

G8 Finance Ministers, whilst in preparation for the [34th Summit of the G8 Heads of State and Government](http://en.wikipedia.org/wiki/34th_G8_summit) in [Toyako, Hokkaido](http://en.wikipedia.org/wiki/Toyako,_Hokkaido), met on the 13 and 14 June 2008, in [Osaka, Japan](http://en.wikipedia.org/wiki/Osaka,_Japan). They agreed to the “G8 Action Plan for Climate Change to Enhance the Engagement of Private and Public Financial Institutions.” In closing, Ministers supported the launch of new [Climate Investment Funds](http://en.wikipedia.org/wiki/Climate_Investment_Funds) (CIFs) by the [World Bank](http://en.wikipedia.org/wiki/World_Bank), which will help existing efforts until a new framework under the [UNFCCC](http://en.wikipedia.org/wiki/UNFCCC) is implemented after 2012.

### Annual summit

The annual G8 leaders summit is attended by the heads of government. The member country holding the G8 presidency is responsible for organizing and hosting the year's summit.

## Member facts

G8-countries represent...

* 8 of 13 top-ranked leading export countries.
* 6 of 10 top-ranked countries with the largest [gold reserves](http://en.wikipedia.org/wiki/Gold_reserve) (USA, Germany, Italy, France, Russia and Japan.)
* 6 of 10 largest [major stock exchanges](http://en.wikipedia.org/wiki/List_of_stock_exchanges) by traded value and market capitalization
* 8 of 10 top-ranked economies (by [nominal GDP](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal))) of the world, according to latest (2011 data) International Monetary Fund's statistics.
* 5 of 20 top-ranked countries generating a [nominal GDP per capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita) above US$40,000 (Canada, USA, Japan, France, Germany), from the same 2011 IMF data.
* 5 countries with a [sovereign wealth fund](http://en.wikipedia.org/wiki/Sovereign_wealth_fund), administered by either a national or a state/provincial government (Russia, USA, France, Canada, Italy).
* 8 of 30 top-ranked nations with large amounts of [foreign-exchange reserves](http://en.wikipedia.org/wiki/List_of_countries_by_foreign-exchange_reserves) in their [central banks](http://en.wikipedia.org/wiki/Central_bank)
* 4 out of 9 [countries having nuclear weapons](http://en.wikipedia.org/wiki/List_of_states_with_nuclear_weapons) (France, Russia, UK, USA),
* 3 additional countries that have the capability to rapidly produce nuclear warheads (Canada, Germany, Japan)
* 3 countries that have nuclear weapons sharing programs (Canada, Germany, Italy).
* 3 of the world's top-10 [largest oil producers](http://en.wikipedia.org/wiki/List_of_countries_by_oil_production) (Russia, USA and Canada)
* 2 countries with the third and eighth largest [oil reserves](http://en.wikipedia.org/wiki/Oil_reserves#Estimated_reserves_by_country) (Canada and Russia respectively) are in the G8
* 7 of the 9 largest [nuclear energy producers](http://en.wikipedia.org/wiki/Nuclear_power_by_country#Nuclear_power_output_in_megawatts) (USA, France, Japan, Russia, Germany, Canada, UK), even though Germany will wean itself from nuclear power by 2022. As with Japan, it shut down all of its nuclear reactors because of the [earthquake in 2011](http://en.wikipedia.org/wiki/2011_T%C5%8Dhoku_earthquake_and_tsunami); the first time the nation has gone nuclear-free since 1970.[[58]](http://en.wikipedia.org/wiki/G8#cite_note-57)
* the 7 largest donors to the [UN budget](http://en.wikipedia.org/wiki/United_Nations_funding) for the 2011 annual fiscal year (U.S., Japan, Germany, UK, France, Italy, Canada.)

All countries are among the ["trillion dollar club of nations"](http://en.wikipedia.org/wiki/Trillion_dollar_club). Until 1998 this "club" consisted only of G8-members. Today 14 out of 15 ["trillion dollar club" members](http://en.wikipedia.org/wiki/Trillion_dollar_club) are members of the [G20 members](http://en.wikipedia.org/wiki/G-20_major_economies).  
All of the G8 and 12 out of 13 [G8+5](http://en.wikipedia.org/wiki/G8%2B5)-countries (minus [South Africa](http://en.wikipedia.org/wiki/South_Africa)) are among the 20 top-ranked nations by the amount of voting power and [special drawing rights](http://en.wikipedia.org/wiki/Special_drawing_rights) (SDRs) in the [IMF organization](http://en.wikipedia.org/wiki/International_Monetary_Fund#Member_states).

## BRIC

In economics, **BRIC** is a grouping [acronym](http://en.wikipedia.org/wiki/Acronym) that refers to the [countries](http://en.wikipedia.org/wiki/Countries) of [Brazil](http://en.wikipedia.org/wiki/Brazil), [Russia](http://en.wikipedia.org/wiki/Russia), [India](http://en.wikipedia.org/wiki/India) and [China](http://en.wikipedia.org/wiki/People%27s_Republic_of_China), which are all deemed to be at a similar stage of newly advanced economic development. It is typically rendered as "the **BRICs**" or "the **BRIC** countries" or "the **BRIC** economies" or alternatively as the "Big Four".



The acronym was coined by [Jim O'Neill](http://en.wikipedia.org/wiki/Jim_O%27Neill_(economist)) in a 2001 paper entitled "Building Better Global Economic BRICs".[[1]](http://en.wikipedia.org/wiki/BRIC#cite_note-0)[[2]](http://en.wikipedia.org/wiki/BRIC#cite_note-1)[[3]](http://en.wikipedia.org/wiki/BRIC#cite_note-2) The acronym has come into widespread use as a symbol of the shift in global economic power away from the developed [G7](http://en.wikipedia.org/wiki/G7) economies towards the developing world. It is estimated that BRIC economies will overtake G7 economies by 2027.[[4]](http://en.wikipedia.org/wiki/BRIC#cite_note-3)

According to a paper published in 2005, [Mexico](http://en.wikipedia.org/wiki/Mexico) and [South Korea](http://en.wikipedia.org/wiki/South_Korea) were the only other countries comparable to the BRICs, but their economies were excluded initially because they were considered already more developed, as they were already members of the [OECD](http://en.wikipedia.org/wiki/OECD).[[5]](http://en.wikipedia.org/wiki/BRIC#cite_note-Ref-1-4) The same creator of the term "BRICS" has recently coined the term [MIKT](http://en.wikipedia.org/wiki/MIKT) that includes Mexico and (South) Korea.

Several of the more developed of the [N-11](http://en.wikipedia.org/wiki/Next_Eleven) countries, in particular [Turkey](http://en.wikipedia.org/wiki/Turkey), Mexico, [Indonesia](http://en.wikipedia.org/wiki/Indonesia) and [Nigeria](http://en.wikipedia.org/wiki/Nigeria), are seen as the most likely contenders to the BRICs. Some other developing countries that have not yet reached the N-11 economic level, such as [South Africa](http://en.wikipedia.org/wiki/South_Africa), aspire to BRIC status. Economists at the [Reuters](http://en.wikipedia.org/wiki/Reuters) 2011 Investment Outlook Summit, held on 6–7 December 2010, dismissed the notion of South Africa joining BRIC.[[6]](http://en.wikipedia.org/wiki/BRIC#cite_note-5) Jim O'Neill told the summit that he was constantly being lobbied about BRIC status by various countries. He said that South Africa, at a population of under 50 million people, was just too small an economy to join the BRIC ranks.[[7]](http://en.wikipedia.org/wiki/BRIC#cite_note-6) However, after the BRIC countries formed a political organization among themselves, they later expanded to include South Africa, becoming the [BRICS](http://en.wikipedia.org/wiki/BRICS).[[8]](http://en.wikipedia.org/wiki/BRIC#cite_note-7)

[Goldman Sachs](http://en.wikipedia.org/wiki/Goldman_Sachs) has argued that, since the four BRIC countries are developing rapidly, by 2050 their combined economies could eclipse the combined economies of the current richest countries of the world. These four countries, combined, currently account for more than a quarter of the world's land area and more than 40% of the [world's population](http://en.wikipedia.org/wiki/World_population).

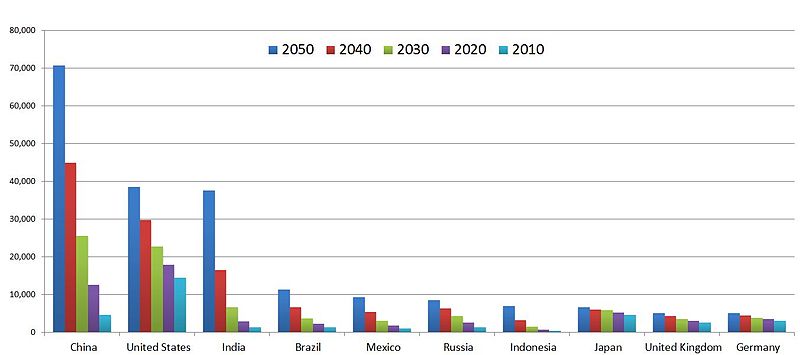
Goldman Sachs did not argue that the BRICs would organize themselves into an economic bloc, or a formal trading association, as the [European Union](http://en.wikipedia.org/wiki/European_Union) has done. However, there are some indications that the "four BRIC countries have been seeking to form a 'political club' or 'alliance'", and thereby converting "their growing economic power into greater geopolitical clout". On June 16, 2009, the leaders of the BRIC countries held their [first summit](http://en.wikipedia.org/wiki/2009_BRIC_summit) in [Yekaterinburg](http://en.wikipedia.org/wiki/Yekaterinburg), and issued a declaration calling for the establishment of an equitable, democratic and [multipolar](http://en.wikipedia.org/wiki/Polarity_in_international_relations) [world order](http://en.wikipedia.org/wiki/New_world_order_(politics)). Since then they have [met](http://en.wikipedia.org/wiki/2010_BRIC_summit) in [Brasília](http://en.wikipedia.org/wiki/Bras%C3%ADlia) in 2010, [met](http://en.wikipedia.org/wiki/2011_BRICS_summit) in [Sanya](http://en.wikipedia.org/wiki/Sanya) in 2011 and in New Delhi, India in 2012.

Thesis

Goldman Sachs argues that the economic potential of [Brazil](http://en.wikipedia.org/wiki/Economy_of_Brazil), [Russia](http://en.wikipedia.org/wiki/Economy_of_Russia), [India](http://en.wikipedia.org/wiki/Economy_of_India) and [China](http://en.wikipedia.org/wiki/Economy_of_the_People%27s_Republic_of_China) is such that they could become among the four most dominant economies by the year 2050. The thesis was proposed by [Jim O'Neill](http://en.wikipedia.org/wiki/Jim_O%27Neill_(economist)), global economist at Goldman Sachs. These countries encompass over 25% of the world's land coverage and 40% of the world's population and hold a combined [GDP](http://en.wikipedia.org/wiki/Gross_domestic_product) (PPP) of 18.486 trillion dollars. On almost every scale, they would be the largest entity on the global stage. These four countries are among the biggest and fastest growing [emerging markets](http://en.wikipedia.org/wiki/Emerging_market).

However, it is not the intent of Goldman Sachs to argue that these four countries are a political alliance (such as the [European Union](http://en.wikipedia.org/wiki/European_Union)) or any formal trading association, like [ASEAN](http://en.wikipedia.org/wiki/ASEAN). Nevertheless, they have taken steps to increase their political cooperation, mainly as a way of influencing the [United States](http://en.wikipedia.org/wiki/United_States) position on major trade accords, or, through the implicit threat of political cooperation, as a way of extracting political concessions from the United States, such as the proposed nuclear cooperation with India

|  | | | | |
| --- | --- | --- | --- | --- |
| **Categories** | **Brazil** | **Russia** | **India** | **China** |
| [**Area**](http://en.wikipedia.org/wiki/List_of_countries_and_outlying_territories_by_total_area) | 5th | **1st** | 7th | 3rd |
| [**Population**](http://en.wikipedia.org/wiki/List_of_countries_by_population) | 5th | 9th | 2nd | **1st** |
| [**Population growth rate**](http://en.wikipedia.org/wiki/List_of_countries_by_population_growth_rate) | 107th | 221st | **90th** | 156th |
| [**Labour force**](http://en.wikipedia.org/wiki/List_of_countries_by_labour_force) | 5th | 7th | 2nd | **1st** |
| [**GDP (nominal)**](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)) | 7th | 11th | 9th | **2nd** |
| [**GDP (PPP)**](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)) | 7th | 6th | 3rd | **2nd** |
| [**GDP (nominal) per capita**](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita) | 55th | **54th** | 137th | 95th |
| [**GDP (PPP) per capita**](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita) | 71st | **51st** | 127th | 93rd |
| [**GDP (real) growth rate**](http://en.wikipedia.org/wiki/List_of_countries_by_real_GDP_growth_rate) | 15th | 88th | 5th | **6th** |
| [**Human Development Index**](http://en.wikipedia.org/wiki/List_of_countries_by_Human_Development_Index) | 73rd | **65th** | 119th | 89th |
| [**Exports**](http://en.wikipedia.org/wiki/List_of_countries_by_exports) | 18th | 9th | 14th | **1st** |
| [**Imports**](http://en.wikipedia.org/wiki/List_of_countries_by_imports) | 19th | 17th | 11th | **2nd** |
| [**Current account balance**](http://en.wikipedia.org/wiki/List_of_countries_by_current_account_balance) | 47th | 5th | 169th | **1st** |
| [**Received FDI**](http://en.wikipedia.org/wiki/List_of_countries_by_received_FDI) | 11th | 12th | 29th | **5th** |
| [**Foreign exchange reserves**](http://en.wikipedia.org/wiki/List_of_countries_by_foreign_exchange_reserves) | 7th | 3rd | 6th | **1st** |
| [**External debt**](http://en.wikipedia.org/wiki/List_of_countries_by_external_debt) | **28th** | 24th | 26th | 23rd |
| [**Public debt**](http://en.wikipedia.org/wiki/List_of_countries_by_public_debt) | 47th | **122nd** | 29th | 98th |
| [**Electricity consumption**](http://en.wikipedia.org/wiki/List_of_countries_by_electricity_consumption) | 9th | 4th | 3rd | **2nd** |
| [**Renewable energy source**](http://en.wikipedia.org/wiki/List_of_countries_by_electricity_production_from_renewable_sources) | 3rd | 5th | 6th | **1st** |
| [**Number of mobile phones**](http://en.wikipedia.org/wiki/List_of_countries_by_number_of_mobile_phones_in_use) | 5th | 4th | 2nd | **1st** |
| [**Number of internet users**](http://en.wikipedia.org/wiki/List_of_countries_by_number_of_Internet_users) | 5th | 7th | 4th | **1st** |
| [**Motor vehicle production**](http://en.wikipedia.org/wiki/List_of_countries_by_motor_vehicle_production) | 7th | 19th | 6th | **1st** |
| [**Military expenditures**](http://en.wikipedia.org/wiki/List_of_countries_by_military_expenditures) | 12th | 5th | 10th | **2nd** |
| [**Active troops**](http://en.wikipedia.org/wiki/List_of_countries_by_number_of_troops) | 14th | 5th | 3rd | **1st** |
| [**Rail network**](http://en.wikipedia.org/wiki/List_of_countries_by_rail_transport_network_size) | 10th | **2nd** | 4th | 3rd |
| [**Road network**](http://en.wikipedia.org/wiki/List_of_countries_by_road_network_size) | 4th | 8th | 3rd | **2nd** |



History

Various sources refer to a purported "original" BRIC agreement that predates the Goldman Sachs thesis. Some of these sources claim that President [Vladimir Putin](http://en.wikipedia.org/wiki/Vladimir_Putin) of Russia was the driving force behind this original cooperative coalition of developing BRIC countries. However, thus far, no text has been made public of any formal agreement to which all four BRIC states are signatories. This does not mean, however, that they have not reached a multitude of bilateral or even quadrilateral agreements. Evidence of agreements of this type are abundant and are available on the foreign ministry websites of each of the four countries. Trilateral agreements and frameworks made among the BRICs include the [Shanghai Cooperation Organization](http://en.wikipedia.org/wiki/Shanghai_Cooperation_Organization) (member states include Russia and China, observers include India) and the [IBSA Trilateral Forum](http://en.wikipedia.org/wiki/IBSA_Dialogue_Forum), which unites Brazil, India, and [South Africa](http://en.wikipedia.org/wiki/South_Africa) in annual dialogues. Also important to note is the [G-20](http://en.wikipedia.org/wiki/G-20) coalition of developing states which includes all the BRICs.

Also, because of the popularity of the Goldman Sachs thesis "BRIC", this term has sometimes been extended whereby "BRICK" (K for South Korea), "[BRIMC](http://en.wikipedia.org/wiki/BRIMC)" (M for Mexico), "BRICA" ([GCC](http://en.wikipedia.org/wiki/Gulf_Cooperation_Council)Arab countries – [Saudi Arabia](http://en.wikipedia.org/wiki/Saudi_Arabia), [Qatar](http://en.wikipedia.org/wiki/Qatar), [Kuwait](http://en.wikipedia.org/wiki/Kuwait), [Bahrain](http://en.wikipedia.org/wiki/Bahrain), [Oman](http://en.wikipedia.org/wiki/Oman) and the [United Arab Emirates](http://en.wikipedia.org/wiki/United_Arab_Emirates)) and "BRICET" (including Eastern Europe and [Turkey](http://en.wikipedia.org/wiki/Turkey)) have become more generic [marketing](http://en.wikipedia.org/wiki/Marketing) terms to refer to these emerging markets.

In an August 2010 [op-ed](http://en.wikipedia.org/wiki/Op-ed), Jim O'Neill of Goldman Sachs argued that Africa could be considered the next BRIC. Analysts from rival banks have sought to move beyond the BRIC concept, by introducing their own groupings of emerging markets. Proposals include CIVETs (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), the EAGLES (Emerging and Growth-Leading Economies) and the 7 per cent Club (which includes those countries which have averaged economic growth of at least 7 per cent a year).

South Africa sought BRIC membership since 2009 and the process for formal admission began as early as August 2010.  South Africa was officially admitted as a BRIC nation on December 24, 2010 after being invited by China and the other BRIC countries to join the group. The capital “S” in BRICS stands for South Africa. President [Jacob Zuma](http://en.wikipedia.org/wiki/Jacob_Zuma) attends the BRICS summit in [Sanya](http://en.wikipedia.org/wiki/Sanya) in April 2011 as a full member. South Africa stands at a unique position to influence African economic growth and investment. According to [Jim O’Neill](http://en.wikipedia.org/wiki/Jim_O%27Neill_(economist)) of Goldman Sachs who originally coined the term, Africa's combined current gross domestic product is reasonably similar to that of Brazil and Russia, and slightly above that of India. South Africa is a "gateway" to Southern Africa and Africa in general as the most developed African country. China is South Africa’s largest trading partner, and India wants to increase commercial ties to Africa. South Africa is also Africa’s largest economy, but as number 31 in global GDP economies it is far behind its new partners.

[Jim O'Neill](http://en.wikipedia.org/wiki/Jim_O%27Neill_(economist)) expressed surprise when South Africa joined BRIC since South Africa's economy is a quarter of the size of Russia's (the least economically powerful BRIC nation). He believed that the potential was there but did not anticipate inclusion of South Africa at this stage. Martyn Davies, a South African emerging markets expert, argued that the decision to invite South Africa made little commercial sense but was politically astute given China's attempts to establish a foothold in Africa. Further, South Africa's inclusion in BRICS may translate to greater South African support for China in global fora.

African credentials are important geopolitically, giving BRICS a four-continent breadth, influence and trade opportunities. South Africa's addition is a deft political move that further enhances BRICS’ power and status. In the original essay that coined the term, Goldman Sachs did not argue that the BRICs would organize themselves into an economic bloc, or a formal trading association which this move signifies.

### Marketing

[](http://en.wikipedia.org/wiki/File:Sao_Paulo_Stock_Exchange.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Sao_Paulo_Stock_Exchange.jpg)

The [São Paulo Stock Exchange](http://en.wikipedia.org/wiki/BM%26F_Bovespa) is the third-largest exchange operator by market value in the world.[[39]](http://en.wikipedia.org/wiki/BRIC#cite_note-38)

The BRIC term is also used by companies who refer to the four named countries as key to their [emerging markets](http://en.wikipedia.org/wiki/Emerging_market) strategies. By comparison the reduced acronym IC would not be attractive, although the term "[Chindia](http://en.wikipedia.org/wiki/Chindia)" is often used. The BRIC's study specifically focuses on large countries, not necessarily the wealthiest or the most productive and was never intended to be an investment thesis. If investors read the Goldman's research carefully, and agreed with the conclusions, then they would gain exposure to Asian debt and equity markets rather than to [Latin America](http://en.wikipedia.org/wiki/Latin_America). According to estimates provided by the USDA, the wealthiest regions outside of the G6 in 2015 will be [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong), South Korea and [Singapore](http://en.wikipedia.org/wiki/Singapore). Combined with China and India, these five economies are likely to be the world's five most influential economies outside of the G6.

On the other hand, when the "R" in BRIC is extended beyond Russia and is used as a loose term to include all of Eastern Europe as well, then the BRIC story becomes more compelling. At issue are the multiple serious problems which confront Russia (potentially unstable government, environmental degradation, critical lack of modern infrastructure, etc. and the comparatively much lower growth rate seen in Brazil. However, Brazil's lower growth rate obscures the fact that the country is wealthier than China or India on a per-capita basis, has a more developed and global integrated financial system and has an economy potentially more diverse than the other BRICs due to its raw material and manufacturing potential. Many other Eastern European countries, such as [Poland](http://en.wikipedia.org/wiki/Poland), [Romania](http://en.wikipedia.org/wiki/Romania), the [Czech Republic](http://en.wikipedia.org/wiki/Czech_Republic), [Slovakia](http://en.wikipedia.org/wiki/Slovakia), [Hungary](http://en.wikipedia.org/wiki/Hungary), [Bulgaria](http://en.wikipedia.org/wiki/Bulgaria), and several others were able to continually sustain high economic growth rates and do not experience some of the problems that Russia experiences or experience them to a lesser extent. In terms of [GDP per capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita) in 2008, Brazil ranked 64th, Russia 42nd, India 113th and China 89th. By comparison South Korea ranked 24th and Singapore 3rd.

Brazil's stock market, the [Bovespa](http://en.wikipedia.org/wiki/Bovespa), has gone from approximately 9,000 in September 2002 to over 70,000 in May 2008. Government policies have favored investment (lowering interest rates), retiring foreign debt and expanding growth, and a reformulation of the tax system is being voted in the congress. The British author and researcher [Mark Kobayashi-Hillary](http://en.wikipedia.org/wiki/Mark_Kobayashi-Hillary) wrote a book in 2007 titled 'Building a Future with BRICs' for European publisher [Springer Verlag](http://en.wikipedia.org/wiki/Springer_Science%2BBusiness_Media) that examines the growth of the BRICs region and its effect on global sourcing. Contributors to the book include [Nandan Nilekani](http://en.wikipedia.org/wiki/Nandan_Nilekani), and [Shiv Nadar](http://en.wikipedia.org/wiki/Shiv_Nadar).

### International Law

Brazilian lawyer and author Adler Martins has published a paper called "Contratos Internacionais entre os países do BRIC" (International Agreements Among BRIC countries) which highlights the international conventions ratified by the BRIC countries, which allow them to maintain trade and investment activities safely within the group. Mr. Martin's study is being further developed by the Federal University of the Minas Gerais State, in Brazil.

### Financial diversification

It has been argued that geographic [diversification](http://en.wikipedia.org/wiki/Diversification_(finance)) would eventually generate superior risk-adjusted returns for [long-term](http://en.wikipedia.org/wiki/Long-term) global investors by reducing overall portfolio risk while capturing some of the higher rates of return offered by the markets of [Asia](http://en.wikipedia.org/wiki/Asia), [Eastern Europe](http://en.wikipedia.org/wiki/Eastern_Europe) and [Latin America](http://en.wikipedia.org/wiki/Latin_America). By doing so, these [institutional investors](http://en.wikipedia.org/wiki/Institutional_investor) have contributed to the financial and economic development of key emerging nations such as Brazil, India, China, and Russia. For global investors, India and China constitute both large-scale production platforms and reservoirs of new consumers, whereas Russia is viewed essentially as an exporter of oil and commodities- Brazil and Latin America being somehow "in the middle".

### Criticism

A criticism is that the BRIC projections are based on the assumptions that resources are limitless and endlessly available when needed. In reality, many important resources currently necessary to sustain economic growth, such as [oil, natural gas, coal, other fossil fuels, and uranium](http://en.wikipedia.org/wiki/Peak_oil) might soon experience a peak in production before enough renewable energy can be developed and commercialized, which might result in slower economic growth than anticipated, thus throwing off the projections and their dates. The economic emergence of the BRICs will have unpredictable consequences for the global environment. Indeed, proponents of a set [carrying capacity](http://en.wikipedia.org/wiki/Carrying_capacity) for the Earth may argue that, given current technology, there is a finite limit to how much the BRICs can develop before exceeding the ability of the global economy to supply.

Academics and experts have suggested that China is in a league of its own compared to the other BRIC countries. As [David Rothkopf](http://en.wikipedia.org/wiki/David_Rothkopf) wrote in [*Foreign Policy*](http://en.wikipedia.org/wiki/Foreign_Policy), "Without China, the BRICs are just the BRI, a bland, soft cheese that is primarily known for the whine [sic] that goes with it. China is the muscle of the group and the Chinese know it. They have effective [veto power](http://en.wikipedia.org/wiki/Veto_power) over any BRIC initiatives because without them, who cares really? They are the one with the big [reserves](http://en.wikipedia.org/wiki/Foreign_exchange_reserves). They are the biggest potential [market](http://en.wikipedia.org/wiki/Market). They are the [U.S.](http://en.wikipedia.org/wiki/U.S.) partner in the [G2](http://en.wikipedia.org/wiki/Group_of_Two) (imagine the coverage a G2 meeting gets vs. a [G8](http://en.wikipedia.org/wiki/G8) meeting) and the E2 (no climate deal without them) and so on." [Deutsche Bank](http://en.wikipedia.org/wiki/Deutsche_Bank) Research said in a report that "economically, financially and politically, China overshadows and will continue to overshadow the other BRICs." It added that China's economy is larger than that of the three other BRIC economies (Brazil, Russia and India) combined. Moreover, China's [exports](http://en.wikipedia.org/wiki/Exports) and its official [foreign-exchange reserves](http://en.wikipedia.org/wiki/Foreign-exchange_reserves) are more than twice as large as those of the other BRICs combined. In that perspective, some pension investment experts have argued that “China alone accounts for more than 70% of the combined GDP growth generated by the BRIC countries [from 1999 to 2010]: if there is a BRIC miracle it’s first and foremost a Chinese one”. The "growth gap" between China and other large emerging economies such as Brazil, Russia and India can be attributed to a large extent to China's early focus on ambitious infrastructure projects: while China invested roughly 9% of its GDP on infrastructure in the 1990s and 2000s, most emerging economies invested only 2% to 5% of their GDP. This considerable spending gap allowed the Chinese economy to grow at near optimal conditions while many South American and South Asian economies suffered from various development bottlenecks (poor transportation networks, aging power grids, mediocre schools...).

The preeminence of China and India as major manufacturing countries with unrealised potential has been widely recognised, but some commentators state that China's and Russia's large-scale disregard for human rights and democracy could be a problem in the future. Human rights issues do not inform the foreign policies of these two countries to the same extent as they do the policies of other large states such as Japan, India, the EU states and the USA. There is also the possibility of conflict over [Taiwan](http://en.wikipedia.org/wiki/Taiwan) in the case of China.

There is also the issue of population growth. The population of Russia has been declining rapidly in the 1990s and only recently did the Russian government predict the population to stabilize and grow in 2020. Brazil's and China's populations will begin to decline in several decadeswith their demographic windows closing in several decades as well. This may have implications for those countries' future, for there might be a decrease in the overall labor force and a negative change in the proportion of workers to retirees.

Brazil's economic potential has been anticipated for decades, but it had until recently consistently failed to achieve investor expectations. Only in recent years has the country established a framework of political, economic, and social policies that allowed it to resume consistent growth. The result has been solid and paced economic development that rival its early 70's "miracle years", as reflected in its expanding capital markets, lowest unemployment rates in decades, and consistent international trade surpluses - that led to the accumulation of reserves and liquidation of foreign debt (earning the country a coveted investment grade by the S&P and Fitch Ratings in 2008).

Finally, India's relations with its neighbor Pakistan have always been tense. In 1998, there was a nuclear standoff between Pakistan and India. Border conflicts with Pakistan, mostly over the long held dispute over Kashmir, has further aggravated any economic ties. This impedes progress by limiting government finances, increasing social unrest, and limiting potential domestic economic demand. Factors such as international conflict, civil unrest, unwise political policy, outbreaks of disease and terrorism are all factors that are difficult to predict and that could have an effect on the destiny of any country.

Other critics suggest that BRIC is nothing more than a neat acronym for the four largest emerging market economies, but in economic and political terms nothing else (apart from the fact that they are all big emerging markets) links the four. Two are manufacturing based economies and big importers (China and India), but two are huge exporters of natural resources (Brazil and Russia). [*The Economist*](http://en.wikipedia.org/wiki/The_Economist), in its special report on Brazil, expressed the following view: "In some ways Brazil is the steadiest of the BRICs. Unlike China and Russia it is a full-blooded democracy; unlike India it has no serious disputes with its neighbors. It is the only BRIC without a nuclear bomb." The [Heritage Foundation](http://en.wikipedia.org/wiki/Heritage_Foundation)'s "[Economic Freedom Index](http://en.wikipedia.org/wiki/Indices_of_Economic_Freedom)", which measures factors such as protection of property rights and free trade ranks Brazil ("moderately free") above the other BRICs ("mostly unfree"). [Henry Kissinger](http://en.wikipedia.org/wiki/Henry_Kissinger) has stated that the BRIC nations have no hope of acting together as a coherent bloc in world affairs, and that any cooperation will be the result of forces acting on the individual nations.[

It is also noticed that BRIC countries have undermined qualitative factors that is reflected in deterioration in Doing Business ranking 2010 and other several human indexes.

In a not-so-subtle dig critical of the term as nothing more than shorthand for emerging markets generally, critics have suggested a correlating term, CEMENT (*C*ountries in *E*merging *M*arkets *E*xcluded by *N*ew *T*erminology). Whilst they accept there has been spectacular growth of the BRIC economies, these gains have largely been the result of the strength of emerging markets generally, and that strength comes through having BRICs and CEMENT.

Proposed inclusions

Mexico and South Korea are currently the world's 13th and 15th largest by [nominal GDP](http://en.wikipedia.org/wiki/Nominal_GDP) just behind the BRIC and G7 economies. Both are experiencing rapid GDP growth of 5% every year, a figure comparable to Brazil from the original BRICs. [Jim O'Neill](http://en.wikipedia.org/wiki/Jim_O%27Neill_(economist)), expert from the same bank and creator of the economic thesis, stated that in 2001 when the paper was created, it did not consider Mexico, but today it has been included because the country is experiencing the same factors that the other countries first included present. While South Korea was not originally included in the BRICs, recent solid economic growth led to Goldman Sachs proposing to add Mexico and South Korea to the BRICs, changing the acronym to BRIMCK, with Jim O'Neill pointing out that Korea "is better placed than most others to realize its potential due to its growth-supportive fundamentals. Again Jim O'Neil recently created the term [MIKT](http://en.wikipedia.org/wiki/MIKT) that stands for Mexico, Indonesia, Korea (South Korea), and Turkey.

A Goldman Sachs paper published later in December 2005 explained why Mexico and South Korea weren't included in the original BRICs. According to the paper, among the other countries they looked at, only Mexico and South Korea have the potential to rival the BRICs, but they are economies that they decided to exclude initially because they looked to them as already more developed. However, due to the popularity of the Goldman Sachs thesis, "BRIMC" and "BRICK" are becoming more generic marketing terms to refer to these six countries.

The term is primarily used in the economic and financial spheres as well as in [academia](http://en.wikipedia.org/wiki/Academia). Its usage has grown especially in the investment sector, where it is used to refer to the bonds emitted by these emerging markets governments.

### Mexico

[](http://en.wikipedia.org/wiki/File:Atardecer_reforma.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Atardecer_reforma.jpg)

Primarily, along with the BRICs, Goldman Sachs argues that the economic potential of Brazil, Russia, India, Mexico and [China](http://en.wikipedia.org/wiki/China) is such that they may become (with the USA) the six most dominant economies by the year 2050. Due to Mexico's rapidly advancing infrastructure, increasing middle class and rapidly declining poverty rates it is expected to have a higher GDP per capita than all but three European countries by 2050, this new found local wealth also contributes to the nation's economy by creating a large domestic consumer market which in turn creates more jobs.

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| **Mexico in 2050** | |
| [GDP](http://en.wikipedia.org/wiki/GDP) in [USD](http://en.wikipedia.org/wiki/USD) | $9.340 trillion |
| [GDP per capita](http://en.wikipedia.org/wiki/GDP_per_capita) | $63,149 |
| [GDP growth](http://en.wikipedia.org/wiki/GDP_growth) (2015–2050) | 4.0% |
| [Total population](http://en.wikipedia.org/wiki/Population) | 142 million |

**South Korea**

[](http://en.wikipedia.org/wiki/File:Gangnam_Station_and_Samsung_Town,_New_Downtown_Seoul_in_Korea.jpg)

[Seoul](http://en.wikipedia.org/wiki/Seoul), South Korea

South Korea is by far the most highly [developed country](http://en.wikipedia.org/wiki/Developed_country) when compared to the BRICs and N-11s. It has achieved an incomparable level of development compared to these groups, with its [Human Development Index](http://en.wikipedia.org/wiki/Human_Development_Index) higher than some of the world's most advanced economies, including [France](http://en.wikipedia.org/wiki/France), [UK](http://en.wikipedia.org/wiki/UK), [Austria](http://en.wikipedia.org/wiki/Austria), [Denmark](http://en.wikipedia.org/wiki/Denmark), [Finland](http://en.wikipedia.org/wiki/Finland) and [Belgium](http://en.wikipedia.org/wiki/Belgium). When compared to other [OECD](http://en.wikipedia.org/wiki/OECD) members in 2010, South Korean workers had a higher disposable income than [Germany](http://en.wikipedia.org/wiki/Germany), [Japan](http://en.wikipedia.org/wiki/Japan) and [Sweden](http://en.wikipedia.org/wiki/Sweden), by far the highest in Asia with the strongest growth rate that is more than quadruple that of the [United States](http://en.wikipedia.org/wiki/United_States) in the same period. Despite these conditions, it has been achieving growth rates of 4-6%, a figure more than double to triple that of other advanced economies. More importantly, it has a significantly higher Growth Environment Score (Goldman Sachs' way of measuring the long-term sustainability of growth) than all of the BRICs or N-11s.[[54]](http://en.wikipedia.org/wiki/BRIC#cite_note-www2.goldmansachs.com-53) Commentators such as William Pesek Jr. from [Bloomberg](http://en.wikipedia.org/wiki/Bloomberg_L.P.) argue that Korea is "Another 'BRIC' in Global Wall", suggesting that it stands out from the [Next Eleven](http://en.wikipedia.org/wiki/Next_Eleven) economies. By [GDP (PPP)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)), South Korea already overtook a [G7](http://en.wikipedia.org/wiki/G7) and [G8](http://en.wikipedia.org/wiki/G8) economy, [Canada](http://en.wikipedia.org/wiki/Canada), in 2009, surpassing [Spain](http://en.wikipedia.org/wiki/Spain) in 2010. According to the [IMF](http://en.wikipedia.org/wiki/IMF) World Economic Outlook, it will overtake [Italy](http://en.wikipedia.org/wiki/Italy) in 2014 and [Mexico](http://en.wikipedia.org/wiki/Mexico) in 2016 to become one of the world's top ten economies and the 6th largest among developed countries. In terms of [GDP per capita (PPP)](http://en.wikipedia.org/wiki/List_of_countries_by_past_and_future_GDP_(PPP)_per_capita), South Korea has surpassed many developed countries, including [Portugal](http://en.wikipedia.org/wiki/Portugal) in 2003, [New Zealand](http://en.wikipedia.org/wiki/New_Zealand) in 2008 and [Greece](http://en.wikipedia.org/wiki/Greece), [Spain](http://en.wikipedia.org/wiki/Spain) and [Italy](http://en.wikipedia.org/wiki/Italy) in 2010. At current speeds, it will surpass [Japan](http://en.wikipedia.org/wiki/Japan) and [France](http://en.wikipedia.org/wiki/France) in 2016. While measuring the [South Korean economy](http://en.wikipedia.org/wiki/South_Korean_economy) by [nominal GDP](http://en.wikipedia.org/wiki/Nominal_GDP) is inaccurate as the [South Korean won](http://en.wikipedia.org/wiki/South_Korean_won) is artificially kept low to boost [exports](http://en.wikipedia.org/wiki/Exports), economists from other investment firms argue that even when measured by [nominal GDP per capita](http://en.wikipedia.org/wiki/Nominal_GDP), South Korea will achieve over $96,000 by 2050, surpassing the [United States](http://en.wikipedia.org/wiki/United_States) and by far the wealthiest among the world's major economies, suggesting that wealth is more important than size for bond investors, stating that Korea's credit rating will be rated AAA sooner than 2050.

**United Korea**

[](http://en.wikipedia.org/wiki/File:Pyongyang_western_view_April_2010.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Pyongyang_western_view_April_2010.jpg)

[Pyongyang](http://en.wikipedia.org/wiki/Pyongyang), North Korea

In September 2009, Goldman Sachs published its 188th Global Economics Paper named "A United Korea?" which highlighted in detail the potential economic power of a United Korea, which will surpass all current G7 countries except the [United States](http://en.wikipedia.org/wiki/United_States), such as [Japan](http://en.wikipedia.org/wiki/Japan), the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), [Germany](http://en.wikipedia.org/wiki/Germany) and [France](http://en.wikipedia.org/wiki/France) within 30–40 years of reunification, estimating GDP to surpass $6 trillion by 2050. The young, skilled labor and large amount of natural resources from the North combined with advanced technology, infrastructure and large amount of capital in the South, as well as Korea's strategic location connecting three economic powers, is likely going to create an economy larger than the bulk of the G7. According to some opinions, a [reunited Korea](http://en.wikipedia.org/wiki/Korean_reunification) could occur before 2050, or even between 2010 and 2020.[  If it occurred, Korean reunification would immediately raise the country's population to over 70 million.[

|  |  |  |  |
| --- | --- | --- | --- |
| **Korea in 2050** | | | |
|  | **[Korea](http://en.wikipedia.org/wiki/Korea)**[**United Korea**](http://en.wikipedia.org/wiki/Korean_reunification) | **http://upload.wikimedia.org/wikipedia/commons/thumb/0/09/Flag_of_South_Korea.svg/22px-Flag_of_South_Korea.svg.png**[**South Korea**](http://en.wikipedia.org/wiki/South_Korea) | **http://upload.wikimedia.org/wikipedia/commons/thumb/5/51/Flag_of_North_Korea.svg/22px-Flag_of_North_Korea.svg.png**[**North Korea**](http://en.wikipedia.org/wiki/North_Korea) |
| [GDP](http://en.wikipedia.org/wiki/GDP) in [USD](http://en.wikipedia.org/wiki/USD) | $6.056 trillion | $4.073 trillion | $1.982 trillion |
| [GDP per capita](http://en.wikipedia.org/wiki/GDP_per_capita) | $86,000 | $96,000 | $70,000 |
| [GDP growth](http://en.wikipedia.org/wiki/GDP_growth) (2015–2050) | 4.8% | 3.9% | 11.4% |
| [Total population](http://en.wikipedia.org/wiki/Population) | 71 million | 42 million | 28 million |

# VIII Marketing

Marketing is "*the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."*

For business to consumer marketing it is *"the process by which companies create value for customers and build strong customer relationships, in order to capture value from customers in return".* For business to business marketing it is creating value, solutions, and relationships either short term or long term with a company or brand. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong [customer relationships](http://en.wikipedia.org/wiki/Customer_relationship_management) and create value for their customers and for themselves.

Marketing is used to identify the [customer](http://en.wikipedia.org/wiki/Customer), satisfy the customer, and keep the customer. With the customer as the focus of its activities, [marketing management](http://en.wikipedia.org/wiki/Marketing_management) is one of the major components of [business management](http://en.wikipedia.org/wiki/Outline_of_business_management). Marketing evolved to meet the stasis in developing new markets caused by [mature markets](http://en.wikipedia.org/wiki/Mature_market) and [overcapacities](http://en.wikipedia.org/wiki/Overcapacity) in the last 2-3 centuries. The adoption of marketing strategies requires businesses to shift their focus from [production](http://en.wikipedia.org/wiki/Manufacturing) to the perceived needs and wants of their customers as the means of staying [profitable](http://en.wikipedia.org/wiki/Profit_(accounting)).

The term marketing concept holds that achieving organizational goals depends on knowing the needs and wants of [target markets](http://en.wikipedia.org/wiki/Target_markets) and delivering the desired satisfactions. It proposes that in order to satisfy its organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than competitors.

The term developed from an original meaning which referred literally to going to a market to buy or sell goods or services. Seen from a systems point of view, [sales process engineering](http://en.wikipedia.org/wiki/Sales_process_engineering) marketing is "*a set of processes that are interconnected and interdependent with other functions, whose methods can be improved using a variety of relatively new approaches."*

The [Chartered Institute of Marketing](http://en.wikipedia.org/wiki/Chartered_Institute_of_Marketing) defines marketing as *"the management process responsible for identifying, anticipating and satisfying customer requirements profitably."*A different concept is the [*value-based marketing*](http://en.wikipedia.org/wiki/Value-based_marketing) which states the role of marketing to contribute to increasing [shareholder value](http://en.wikipedia.org/wiki/Shareholder_value). In this context, marketing is defined as *"the management process that seeks to maximize returns to shareholders by developing relationships with valued customers and creating a competitive advantage."*

Marketing practice tended to be seen as a creative industry in the past, which included [advertising](http://en.wikipedia.org/wiki/Advertising), [distribution](http://en.wikipedia.org/wiki/Distribution_(business)) and [selling](http://en.wikipedia.org/wiki/Sales), Merchandise support. However, because the academic study of marketing makes extensive use of [social sciences](http://en.wikipedia.org/wiki/Social_sciences),[psychology](http://en.wikipedia.org/wiki/Psychology), [sociology](http://en.wikipedia.org/wiki/Sociology), [mathematics](http://en.wikipedia.org/wiki/Mathematics), [economics](http://en.wikipedia.org/wiki/Economics), [anthropology](http://en.wikipedia.org/wiki/Anthropology) and [neuroscience](http://en.wikipedia.org/wiki/Neuroscience), the profession is now widely recognized as a science, allowing numerous universities to offer Master-of-Science (MSc) programmes. The overall process starts with marketing research and goes through [market segmentation](http://en.wikipedia.org/wiki/Market_segmentation), business planning and execution, ending with pre- and post-sales promotional activities. It is also related to many of the [creative](http://en.wikipedia.org/wiki/Creativity) arts. The marketing literature is also adept at re-inventing itself and its vocabulary according to the times and the culture.

## International marketing

**International marketing (IM)** or **global marketing** refers to [marketing](http://en.wikipedia.org/wiki/Marketing) carried out by companies overseas or across national borderlines. This strategy uses an extension of the techniques used in the home country of a firm. It refers to the firm-level marketing practices across the border including market identification and targeting, entry mode selection, marketing mix, and strategic decisions to compete in international markets. According to the [American Marketing Association (AMA)](http://en.wikipedia.org/wiki/American_Marketing_Association)"***international marketing****is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*" In contrast to the definition of marketing only the word *multinational* has been added. In simple words international marketing is the application of marketing principles to across national boundaries. However, there is a crossover between what is commonly expressed as international marketing and global marketing, which is a similar term.

The intersection is the result of the process of [internationalization](http://en.wikipedia.org/wiki/Internationalization). Many American and European authors see international marketing as a simple extension of exporting, whereby the [marketing mix](http://en.wikipedia.org/wiki/Marketing_mix) [4P's](http://en.wikipedia.org/wiki/4P%27s) is simply adapted in some way to take into account differences in consumers and segments. It then follows that global marketing takes a more standardized approach to world markets and focuses upon sameness, in other words the similarities in consumers and segments.

## Marketing research

Marketing research involves conducting research to support marketing activities, and the statistical interpretation of data into information. This information is then used by managers to plan marketing activities, gauge the nature of a firm's marketing environment and attain information from suppliers. Marketing researchers use statistical methods such as [quantitative research](http://en.wikipedia.org/wiki/Quantitative_research), [qualitative research](http://en.wikipedia.org/wiki/Qualitative_research), [hypothesis tests](http://en.wikipedia.org/wiki/Statistical_hypothesis_testing), [Chi-squared tests](http://en.wikipedia.org/wiki/Chi-squared_test), [linear regression](http://en.wikipedia.org/wiki/Linear_regression), [correlations](http://en.wikipedia.org/wiki/Correlation_and_dependence), [frequency distributions](http://en.wikipedia.org/wiki/Frequency_distribution), [poisson distributions](http://en.wikipedia.org/wiki/Poisson_distribution), [binomial distributions](http://en.wikipedia.org/wiki/Binomial_distribution), etc. to interpret their findings and convert data into information. The marketing research process spans a number of stages, including the definition of a problem, development of a research plan, collection and interpretation of data and disseminating information formally in the form of a report. The task of marketing research is to provide management with relevant, accurate, reliable, valid, and current information.

A distinction should be made between [**marketing research**](http://en.wikipedia.org/wiki/Marketing_research) and [**market research**](http://en.wikipedia.org/wiki/Market_research). Market research pertains to research in a given market. As an example, a firm may conduct research in a target market, after selecting a suitable market segment. In contrast, marketing research relates to all research conducted within marketing. Thus, market research is a subset of marketing research.

Marketing research is the systematic gathering, recording, and analysis of data about issues relating to [marketing](http://en.wikipedia.org/wiki/Marketing) products and services. The goal of marketing research is to identify and assess how changing elements of the [marketing mix](http://en.wikipedia.org/wiki/Marketing_mix) impacts [customer behaviour](http://en.wikipedia.org/wiki/Customer_behavior). The term is commonly interchanged with [market research](http://en.wikipedia.org/wiki/Market_research); however, expert practitioners may wish to draw a distinction, in that market research is concerned specifically with [markets](http://en.wikipedia.org/wiki/Markets), while marketing research is concerned specifically about marketing processes. It has been described as "the function that links the consumers, customers, and public to the marketer through information — information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications."

Marketing research is often partitioned into two sets of categorical pairs, either by target market:

* Consumer marketing research, and
* Business-to-business (B2B) marketing research

Or, alternatively, by methodological approach:

* Qualitative marketing research, and
* Quantitative marketing research

Consumer marketing research is a form of applied [sociology](http://en.wikipedia.org/wiki/Sociology) that concentrates on understanding the preferences, attitudes, and behaviours of [consumers](http://en.wikipedia.org/wiki/Consumer) in a market-based economy, and it aims to understand the effects and comparative success of marketing campaigns.

Thus, marketing research may also be described as the systematic and objective identification, collection, analysis, and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in [marketing](http://en.wikipedia.org/wiki/Marketing).

### Types of Market Research

Market research, as a sub-set aspect of marketing activities, can be divided into the following parts:

* Primary research (also known as field research), which involves the conduction and compilation of research for a specific purpose.
* Secondary research (also referred to as desk research), initially conducted for one purpose, but often used to support another purpose or end goal.

**Strategic planning** is an [organization](http://en.wikipedia.org/wiki/Organization)'s process of defining its [strategy](http://en.wikipedia.org/wiki/Strategy), or direction, and making [decisions](http://en.wikipedia.org/wiki/Decision_making) on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Generally, strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

## Key components

The key components of 'strategic planning' include an understanding of the firm's vision, mission, values and strategies. The vision and mission are often captured in a Vision Statement and [Mission Statement](http://en.wikipedia.org/wiki/Mission_Statement).

* **Vision:** outlines what the organization wants to be, or how it wants the world in which it operates to be (an "idealised" view of the world). It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration. For example, a charity working with the poor might have a vision statement which reads "A World without Poverty."
* **Mission:** Defines the fundamental purpose of an organization or an enterprise, succinctly describing why it exists and what it does to achieve its vision. For example, the charity above might have a mission statement as "providing jobs for the homeless and unemployed".
* **Values:** Beliefs that are shared among the [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)) of an organization. Values drive an organization's culture and priorities and provide a framework in which decisions are made. For example, "Knowledge and skills are the keys to success" or "give a man bread and feed him for a day, but teach him to farm and feed him for life". These example values may set the priorities of self sufficiency over shelter.
* **Strategy:** Strategy, narrowly defined, means "the art of the general." A combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. A strategy is sometimes called a roadmap which is the path chosen to plow towards the end vision. The most important part of implementing the strategy is ensuring the company is going in the right direction which is towards the end vision.

## Market segmentations

Target markets are groups of individuals separated by distinguishable and noticeable aspects. Target markets can be separated into:

• [Geographic](http://en.wikipedia.org/wiki/Geographic) segmentations, addresses (their location climate region)

• [Demographic](http://en.wikipedia.org/wiki/Demographic)/[socio-economic](http://en.wikipedia.org/wiki/Socio-economic) segmentation (gender, age, income, occupation, education, household size, and stage in the family life cycle)

• [Psychographic](http://en.wikipedia.org/wiki/Psychographic) segmentation (similar attitudes, values, and lifestyles)

• [Behavioural](http://en.wikipedia.org/wiki/Behavioral) segmentation (occasions, degree of loyalty)

• Product-related segmentation (relationship to a product)

## Criteria for Segmenting

An ideal **market segment** meets all of the following criteria:

* It is possible to measure.
* It has to be large enough to earn profit.
* It has to be stable enough that it does not vanish after some time.
* It is possible to reach potential customer via organization's promotion and distribution channel.
* It is internally homogeneous (potential customers in the same segment prefer the same product qualities).
* It is externally heterogeneous that is Heterogeneity between segments (potential customers from different segments have basically different quality preferences).
* It responds similarly to a market stimulus.
* It can be cost-efficiently reached by market intervention.
* useful in deciding on marketing mix

## Basis for segmenting consumer markets

### Geographic segmentation

The market is segmented according to geographic criteria- nations, states, regions, countries, cities, neighbourhoods, or zip codes. Geo-cluster approach combines demographic data with geographic data to create a more accurate profile of specific With aspect of region, in rainy regions you can sell things like raincoats, umbrellas and gumboots. In hot regions you can sell summer wear. In cold regions you can sell warm clothes

### Demographic Segmentation

Demographic segmentation consists of dividing the market into groups based on variables such as age, gender, family size, income, occupation, education, religion, race and nationality.

As you might expect, demographic segmentation variables are amongst the most popular bases for segmenting customer groups.

This is partly because customer wants are closely linked to variables such as income and age. Also, for practical reasons, there is often much more data available to help with the demographic segmentation process.

### Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. Psychographic segmentation: Consumers are divided according to their lifestyle, personality, values. Aliens within the same demographic group can exhibit very different psychographic profiles.[[2]](http://en.wikipedia.org/wiki/Market_segmentation#cite_note-1)

### "Positive" market segmentation

Market segmenting is dividing the market into groups of individual markets with similar wants or needs that a company divides into distinct groups which have distinct needs, wants, behaviour or which might want different products & services. Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private. Although [industrial market segmentation](http://en.wikipedia.org/wiki/Industrial_market_segmentation) is quite different from consumer market segmentation, both have similar objectives. All of these methods of segmentation are merely proxies for true segments, which don't always fit into convenient demographic boundaries.

Consumer-based market segmentation can be performed on a *product specific* basis, to provide a close match between specific products and individuals. However, a number of generic market segment systems also exist, e.g. the system provides a broad segmentation of the population of the United States based on the statistical analysis of household and geodemographic data.

The process of segmentation is distinct from [positioning](http://en.wikipedia.org/wiki/Positioning_(marketing)) (designing an appropriate marketing mix for each segment). The overall intent is to identify groups of similar customers and potential customers; to prioritize the groups to address; to understand their behaviour; and to respond with appropriate marketing strategies that satisfy the different preferences of each chosen segment. Revenues are thus improved.

Improved segmentation can lead to significantly improved marketing effectiveness. Distinct segments can have different industry structures and thus have higher or lower attractiveness

Once a market segment has been identified (via segmentation), and targeted (in which the viability of servicing the market intended), the segment is then subject to positioning. Positioning involves ascertaining how a product or a company is perceived in the minds of consumers.

This part of the segmentation process consists of drawing up a perceptual map, which highlights rival goods within one's industry according to perceived quality and price. After the perceptual map has been devised, a firm would consider the marketing communications mix best suited to the product in question.

### Behavioural Segmentation

In behavioural segmentation, consumers are divided into groups according to their knowledge of, attitude towards, use of or response to a product. It is actually based on the behaviour of the consumer.

### Occasions

Segmentation according to occasions. We segment the market according to the occasions.

### Benefits

Segmentations according to benefits sought by the consumer.

## The marketing planning process

A marketing plan is a plan which outlines a company's overall marketing efforts. Marketing process can be realized by the marketing mix in step 4. The last step in the process is the marketing controlling.

The marketing plan can function from two points: strategy and tactics (P. Kotler, K.L. Keller). In most organizations, "strategic planning" is an annual process, typically covering just the year ahead. Occasionally, a few organizations may look at a practical plan which stretches three or more years ahead.

To be most effective, the plan has to be formalized, usually in written form, as a formal "marketing plan." The essence of the process is that it moves from the general to the specific, from the vision to the mission to the goals to the corporate objectives of the organization, then down to the individual [action plans](http://en.wikipedia.org/wiki/Objective_(goal)) for each part of the marketing program. It is also an interactive process, so that the draft output of each stage is checked to see what impact it has on the earlier stages, and is amended.

## Marketing strategy

**Marketing strategy** is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable [competitive advantage](http://en.wikipedia.org/wiki/Competitive_advantage).



## Developing a marketing strategy

Marketing strategies serve as the fundamental underpinning of [marketing plans](http://en.wikipedia.org/wiki/Marketing_plan) designed to fill market needs and reach [marketing](http://en.wikipedia.org/wiki/Marketing) objectives. Plans and objectives are generally tested for measurable results. Commonly, marketing strategies are developed as multi-year plans, with a tactical plan detailing specific actions to be accomplished in the current year. Time horizons covered by the [marketing plan](http://en.wikipedia.org/wiki/Marketing_plan) vary by company, by industry, and by nation, however, time horizons are becoming shorter as the speed of change in the environment increases. Marketing strategies are dynamic and interactive. They are partially planned and partially unplanned. See [strategy dynamics](http://en.wikipedia.org/wiki/Strategy_dynamics).

Marketing strategy involves careful scanning of the internal and external environments. Internal environmental factors include the [marketing mix](http://en.wikipedia.org/wiki/Marketing_mix), plus performance analysis and strategic constraints. External environmental factors include customer analysis, [competitor analysis](http://en.wikipedia.org/wiki/Competitor_analysis), [target market](http://en.wikipedia.org/wiki/Target_market) analysis, as well as evaluation of any elements of the technological, economic, cultural or political/legal environment likely to impact success. A key component of marketing strategy is often to keep marketing in line with a company's overarching [mission statement](http://en.wikipedia.org/wiki/Mission_statement).

Once a thorough environmental scan is complete, a [strategic plan](http://en.wikipedia.org/wiki/Strategic_planning) can be constructed to identify business alternatives, establish challenging goals, determine the optimal marketing mix to attain these goals, and detail implementation.[[3]](http://en.wikipedia.org/wiki/Strategic_marketing#cite_note-AakerDavid-2) A final step in developing a marketing strategy is to create a plan to monitor progress and a set of contingencies if problems arise in the implementation of the plan

## Competitor analysis

**Competitor analysis** in [marketing](http://en.wikipedia.org/wiki/Marketing) and strategic [management](http://en.wikipedia.org/wiki/Management) is an assessment of the strengths and weaknesses of current and potential [competitors](http://en.wikipedia.org/wiki/Competition_(economics)). This analysis provides both an offensive and defensive strategic context to identify opportunities and threats. Profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment.

Competitor analysis is an essential component of corporate strategy. It is argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what is called “informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives.” As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis.

## Market environment

The **market environment** is a [marketing](http://en.wikipedia.org/wiki/Marketing) term and refers to factors and forces that affect a firm’s ability to build and maintain successful relationships with customers. Three levels of the environment are: Micro (internal) environment - ma forces within the company that affect its ability to serve its customers. Meso environment – the industry in which a company operates and the industry’s market(s). Macro (national) environment - larger societal forces that affect the microenvironment.

## Micro-Environment (internal environment)

The microenvironment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets, [competitors](http://en.wikipedia.org/wiki/Competitors), and publics.

The company aspect of microenvironment refers to the internal environment of the company. This includes all [departments](http://en.wikipedia.org/wiki/Departmentalization), such as management, [finance](http://en.wikipedia.org/wiki/Finance), [research and development](http://en.wikipedia.org/wiki/Research_and_development), [purchasing](http://en.wikipedia.org/wiki/Purchasing), [operations](http://en.wikipedia.org/wiki/Business_operations) and [accounting](http://en.wikipedia.org/wiki/Accounting). Each of these departments has an impact on marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budgets.

The [suppliers](http://en.wikipedia.org/wiki/Suppliers) of a company are also an important aspect of the microenvironment because even the slightest delay in receiving supplies can result in customer dissatisfaction. Marketing managers must watch supply availability and other trends dealing with suppliers to ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer relationship.

Marketing intermediaries refers to resellers, physical distribution firms, marketing services agencies, and [financial intermediaries](http://en.wikipedia.org/wiki/Financial_intermediary). These are the people that help the company promote, sell, and distribute its products to final buyers. Resellers are those that hold and sell the company’s product. They match the distribution to the customers and include places such as [Wal-Mart](http://en.wikipedia.org/wiki/Wal-Mart), Target, and [Best Buy](http://en.wikipedia.org/wiki/Best_Buy). Physical distribution firms are places such as warehouses that store and transport the company’s product from its origin to its destination. Marketing services agencies are companies that offer services such as conducting [marketing research](http://en.wikipedia.org/wiki/Marketing_research), advertising, and consulting. Financial intermediaries are institutions such as banks, credit companies and [insurance companies](http://en.wikipedia.org/wiki/Insurance).

Another aspect of microenvironment is the customers. There are different types of customer markets including consumer markets, business markets, government markets, [international markets](http://en.wikipedia.org/wiki/Globalization), and reseller markets. The consumer market is made up of individuals who buy [goods and services](http://en.wikipedia.org/wiki/Goods_and_services) for their own personal use or use in their household. Business markets include those that buy goods and services for use in producing their own products to sell. This is different from the reseller market which includes businesses that purchase goods to resell as is for a profit. These are the same companies mentioned as market intermediaries. The government market consists of government agencies that buy goods to produce [public services](http://en.wikipedia.org/wiki/Public_services) or transfer goods to others who need them. International markets include buyers in other countries and includes customers from the previous categories.

Competitors are also a factor in the microenvironment and include companies with similar offerings for goods and services. To remain competitive a company must consider who their biggest competitors are while considering its own size and position in the industry. The company should develop a strategic advantage over their competitors.

The final aspect of the microenvironment is publics, which is any group that has an interest in or impact on the organization’s ability to meet its goals. For example, financial publics can hinder a company’s ability to obtain funds affecting the level of credit a company has. Media publics include newspapers and magazines that can publish articles of interest regarding the company and editorials that may influence customers’ opinions. Government publics can affect the company by passing legislation and laws that put restrictions on the company’s actions. Citizen-action publics include environmental groups and [minority groups](http://en.wikipedia.org/wiki/Minority_group) and can question the actions of a company and put them in the public spotlight. Local publics are neighborhood and community organizations and will also question a company’s impact on the local area and the level of responsibility of their actions. The general public can greatly affect the company as any change in their attitude, whether positive or negative, can cause sales to go up or down because the general public is often the company’s [customer base](http://en.wikipedia.org/wiki/Customer_base). And finally those who are employed within the company and deal with the organization and construction of the company’s product.

## Macro-Environment (external environment)

The macroenvironment refers to all forces that are part of the larger society and affect the microenvironment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture.

[Demography](http://en.wikipedia.org/wiki/Demography) refers to studying human populations in terms of size, density, location, age, gender, race, and occupation. This is a very important factor to study for marketers and helps to divide the population into [market segments](http://en.wikipedia.org/wiki/Market_segment) and [target markets](http://en.wikipedia.org/wiki/Target_market). An example of demography is classifying groups of people according to the year they were born. These classifications can be referred to as [baby boomers](http://en.wikipedia.org/wiki/Baby_boomer), who are born between 1946 and 1964, [generation X](http://en.wikipedia.org/wiki/Generation_X), who are born between 1965 and 1976, and [generation Y](http://en.wikipedia.org/wiki/Generation_Y), who are born between 1977 and 1994. Each classification has different characteristics and causes they find important. This can be beneficial to a marketer as they can decide who their product would benefit most and tailor their [marketing plan](http://en.wikipedia.org/wiki/Marketing_plan) to attract that segment. Demography covers many aspects that are important to marketers including family dynamics, geographic shifts, work force changes, and levels of diversity in any given area.

Another aspect of the macroenvironment is the economic environment. This refers to the [purchasing power](http://en.wikipedia.org/wiki/Purchasing_power) of potential customers and the ways in which people spend their money. Within this area are two different economies, subsistence and industrialized. Subsistence economies are based more in agriculture and consume their own industrial output. Industrial economies have markets that are diverse and carry many different types of goods. Each is important to the marketer because each has a highly different spending pattern as well as different [distribution of wealth](http://en.wikipedia.org/wiki/Distribution_of_wealth).

The natural environment is another important factor of the macroenvironment. This includes the natural resources that a company uses as inputs and affects their marketing activities. The concern in this area is the increased pollution, shortages of raw materials and increased governmental intervention. As raw materials become increasingly scarcer, the ability to create a company’s product gets much harder. Also, pollution can go as far as negatively affecting a company’s reputation if they are known for damaging the environment. The last concern, [government intervention](http://en.wikipedia.org/wiki/Public_sector) can make it increasingly harder for a company to fulfill their goals as requirements get more stringent.

The technological environment is perhaps one of the fastest changing factors in the macroenvironment. This includes all developments from antibiotics and surgery to [nuclear missiles](http://en.wikipedia.org/wiki/Nuclear_weapons_delivery) and [chemical weapons](http://en.wikipedia.org/wiki/Chemical_warfare) to automobiles and [credit cards](http://en.wikipedia.org/wiki/Credit_card). As these markets develop it can create new markets and new uses for products. It also requires a company to stay ahead of others and update their own technology as it becomes outdated. They must stay informed of trends so they can be part of the next big thing, rather than becoming outdated and suffering the consequences financially.

The political environment includes all [laws](http://en.wikipedia.org/wiki/Laws), [government agencies](http://en.wikipedia.org/wiki/Government_agencies), and groups that influence or limit other organizations and individuals within a [society](http://en.wikipedia.org/wiki/Society). It is important for marketers to be aware of these restrictions as they can be complex. Some products are regulated by both state and federal laws. There are even restrictions for some products as to who the target market may be, for example, cigarettes should not be marketed to younger children. There are also many restrictions on [subliminal messages](http://en.wikipedia.org/wiki/Subliminal_message) and monopolies. As laws and regulations change often, this is a very important aspect for a marketer to monitor.

The final aspect of the macroenvironment is the cultural environment, which consists of institutions and basic values and beliefs of a group of people. The values can also be further categorized into core beliefs, which passed on from generation to generation and very difficult to change, and secondary beliefs, which tend to be easier to influence. As a marketer, it is important to know the difference between the two and to focus your marketing campaign to reflect the values of a [target audience](http://en.wikipedia.org/wiki/Target_audience).

When dealing with the marketing environment it is important for a company to become proactive. By doing so, they can create the kind of environment that they will prosper in and can become more efficient by marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and microenvironment and to react accordingly to changes within them.[[2]](http://en.wikipedia.org/wiki/Market_environment#cite_note-1)

## Consumer behaviour

**Consumer behaviour** is the study of when, why, how, and where people do or do not buy a [product](http://en.wikipedia.org/wiki/Product_(business)). It blends elements from [psychology](http://en.wikipedia.org/wiki/Psychology), [sociology](http://en.wikipedia.org/wiki/Sociology), [social](http://en.wikipedia.org/wiki/Social_Anthropology) [anthropology](http://en.wikipedia.org/wiki/Anthropology) and [economics](http://en.wikipedia.org/wiki/Economics). It attempts to understand the buyer decision making process, both individually and in groups. It studies characteristics of individual consumers such as [demographics](http://en.wikipedia.org/wiki/Demographic) and behavioural variables in an attempt to understand people's wants. It also tries to assess influences on the [consumer](http://en.wikipedia.org/wiki/Consumer) from groups such as family, friends, reference groups, and society in general.

Customer behaviour study is based on consumer buying behaviour, with the customer playing the three distinct roles of user, payer and buyer. Research has shown that consumer behaviour is difficult to predict, even for experts in the field. [Relationship marketing](http://en.wikipedia.org/wiki/Relationship_marketing) is an influential asset for customer behaviour analysis as it has a keen interest in the re-discovery of the true meaning of marketing through the re-affirmation of the importance of the customer or buyer. A greater importance is also placed on consumer retention, customer relationship management, personalisation, customisation and one-to-one marketing. Social functions can be categorized into social choice and welfare functions.

Each method for vote counting is assumed as social function but if [Arrow’s possibility theorem](http://en.wikipedia.org/wiki/Arrow%27s_impossibility_theorem) is used for a social function, social welfare function is achieved. Some specifications of the social functions are decisiveness, [neutrality](http://en.wikipedia.org/wiki/Neutrality), [anonymity](http://en.wikipedia.org/wiki/Anonymity), [monotonicity](http://en.wikipedia.org/wiki/Monotonicity), [unanimity](http://en.wikipedia.org/wiki/Unanimity), homogeneity and weak and strong [Pareto optimality](http://en.wikipedia.org/wiki/Pareto_optimality). No social choice function meets these requirements in an ordinal scale simultaneously. The most important characteristic of a social function is identification of the interactive effect of alternatives and creating a logical relation with the ranks. Marketing provides services in order to satisfy customers. With that in mind, the productive system is considered from its beginning at the production level, to the end of the cycle, the consumer

## Buying behaviour

A marketing firm must ascertain the nature of customers' buying behaviour if it is to market its product properly. In order to entice and persuade a consumer to buy a product, marketers try to determine the behavioural process of how a given product is purchased. Buying behaviour is usually split into two prime strands, whether selling to the consumer, known as [business-to-consumer](http://en.wikipedia.org/wiki/Business-to-consumer) (B2C), or to another business, known as [business-to-business](http://en.wikipedia.org/wiki/Business-to-business) (B2B).

### B2C buying behaviour

This mode of behaviour concerns consumers and their purchase of a given product. For example, if one imagines a pair of sneakers, the desire for a pair of sneakers would be followed by an information search on available types/brands. This may include perusing media outlets, but most commonly consists of information gathered from family and friends. If the information search is insufficient, the consumer may search for alternative means to satisfy the need/want. In this case, this may mean buying leather shoes, sandals, etc. The purchase decision is then made, in which the consumer actually buys the product. Following this stage, a post-purchase evaluation is often conducted, comprising an appraisal of the value/utility brought by the purchase of the sneakers. If the value/utility is high, then a repeat purchase may be made. This could then develop into consumer loyalty to the firm producing the sneakers.

### B2B buying behaviour

Relates to organizational/industrial buying behaviour. Business buy either wholesale from other businesses or directly from the manufacturer in contracts or agreements. B2B marketing involves one business marketing a product or service to another business. B2C and B2B behaviour are not precise terms, as similarities and differences exist, with some key differences listed below:

In a straight re-buy, the fourth, fifth and sixth stages are omitted. In a modified re-buy scenario, the fifth and sixth stages are precluded. In a new buy, all stages are conducted

## Marketing mix

The **marketing mix** is a business tool used in [marketing](http://en.wikipedia.org/wiki/Marketing) products. The marketing mix is often crucial when determining a product or brand's unique selling point (the unique quality that differentiates a product from its competitors), and is often synonymous with the **four Ps**: *price*, *product*, *promotion*, and *place*.

## Four Ps: the producer-oriented model

The marketer, [E. Jerome McCarthy](http://en.wikipedia.org/wiki/E._Jerome_McCarthy), proposed a four Ps classification in 1960, which has since been used by marketers throughout the world

* [Product](http://en.wikipedia.org/wiki/Product_(business)) - A product is seen as an item that satisfies what a consumer needs or wants. It is a tangible good or an intangible service. Intangible products are service based like the [tourism industry](http://en.wikipedia.org/wiki/Tourism_industry), the [hotel industry](http://en.wikipedia.org/wiki/Hotel_industry) and the [financial industry](http://en.wikipedia.org/wiki/Financial_industry). Tangible products are those that have an independent physical existence. Typical examples of mass-produced, tangible objects are the [motor car](http://en.wikipedia.org/wiki/Motor_car) and the disposable [razor](http://en.wikipedia.org/wiki/Razor). A less obvious but ubiquitous mass produced service is a [computer operating system](http://en.wikipedia.org/wiki/Computer_operating_system).

Every product is subject to a [life-cycle](http://en.wikipedia.org/wiki/Product_life-cycle_theory) including a growth phase followed by a maturity phase and finally an eventual period of decline as sales falls. Marketers must do careful research on how long the life cycle of the product they are marketing is likely to be and focus their attention on different challenges that arise as the product moves through each stage.

The marketer must also consider the [product mix](http://en.wikipedia.org/wiki/Product_lining). Marketers can expand the current product mix by increasing a certain product line's depth or by increasing the number of product lines. Marketers should consider how to position the product, how to exploit the brand, how to exploit the company's resources and how to configure the product mix so that each product complements the other. The marketer must also consider product development strategies.

* [Price](http://en.wikipedia.org/wiki/Pricing) – The price is the amount a customer pays for the product. The price is very important as it determines the company's profit and hence, survival. Adjusting the price has a profound impact on the marketing strategy, and depending on the [price elasticity](http://en.wikipedia.org/wiki/Price_elasticity) of the product, often; it will affect the [demand](http://en.wikipedia.org/wiki/Demand) and sales as well. The marketer should set a price that complements the other elements of the marketing mix.

When setting a price, the marketer must be aware of the [customer perceived value](http://en.wikipedia.org/wiki/Customer_perceived_value) for the product. Three basic pricing strategies are: [market skimming](http://en.wikipedia.org/wiki/Market_skimming) pricing, marketing [penetration pricing](http://en.wikipedia.org/wiki/Penetration_pricing) and neutral pricing. The 'reference value' (where the consumer refers to the prices of competing products) and the 'differential value' (the consumer's view of this product's attributes versus the attributes of other products) must be taken into account.

* [Promotion](http://en.wikipedia.org/wiki/Promotion_(marketing)) - represents all of the methods of communication that a marketer may use to provide information to different parties about the product. Promotion comprises elements such as: [advertising](http://en.wikipedia.org/wiki/Advertising), [public relations](http://en.wikipedia.org/wiki/Public_relations), [personal selling](http://en.wikipedia.org/wiki/Personal_selling) and [sales promotion](http://en.wikipedia.org/wiki/Sales_promotion).

Advertising covers any communication that is paid for, from cinema commercials, radio and Internet advertisements through print media and billboards. Public relations is where the communication is not directly paid for and includes press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. [Word-of-mouth](http://en.wikipedia.org/wiki/Word_of_mouth) is any apparently informal communication about the product by ordinary individuals, satisfied customers or people specifically engaged to create word of mouth momentum. Sales staff often plays an important role in word of mouth and public relations (see 'product' above).

* [Place](http://en.wikipedia.org/wiki/Product_placement) - refers to providing the product at a place which is convenient for consumers to access. Place is synonymous with [distribution](http://en.wikipedia.org/wiki/Distribution_(business)). Various [strategies](http://en.wikipedia.org/wiki/Distribution_(business)#Type_of_marketing_channel) such as intensive distribution, selective distribution, exclusive distribution and [franchising](http://en.wikipedia.org/wiki/Franchising) can be used by the marketer to complement the other aspects of the marketing mix.

## Elements of the global marketing mix

The “Four P’s” of marketing: product, price, placement, and promotion are all affected as a company moves through the five evolutionary phases to become a global company. Ultimately, at the global marketing level, a company trying to speak with one voice is faced with many challenges when creating a worldwide marketing plan. Unless a company holds the same position against its competition in all markets (market leader, low cost, etc.) it is impossible to launch identical marketing plans worldwide. Nisant Chakram (Marketing Management)

### Product

A global company is one that can create a single product and only have to tweak elements for different markets. For example, [Coca-Cola](http://en.wikipedia.org/wiki/Coca-Cola) uses two formulas (one with sugar, one with corn syrup) for all markets. The product packaging in every country incorporates the contour bottle design and the dynamic ribbon in some way, shapes, or form. However, the bottle can also include the country’s native language and is the same size as other beverage bottles or cans in that same country.

### Price

Price will always vary from market to market. Price is affected by many variables: cost of product development (produced locally or imported), cost of ingredients, cost of delivery (transportation, tariffs, etc.), and much more. Additionally, the product’s position in relation to the competition influences the ultimate profit margin. Whether this product is considered the high-end, expensive choice, the economical, low-cost choice, or something in-between helps determine the price point.

### Placement

How the product is distributed is also a country-by-country decision influenced by how the competition is being offered to the target market. Using Coca-Cola as an example again, not all cultures use vending machines. In the United States, beverages are sold by the pallet via warehouse stores. In India, this is not an option. Placement decisions must also consider the product’s position in the market place. For example, a high-end product would not want to be distributed via a “dollar store” in the United States. Conversely, a product promoted as the low-cost option in France would find limited success in a pricey boutique.

### Promotion

After product research, development and creation, promotion (specifically advertising) is generally the largest line item in a global company’s marketing budget. At this stage of a company’s development, integrated marketing is the goal. The global corporation seeks to reduce costs, minimize redundancies in personnel and work, maximize speed of implementation, and to speak with one voice. If the goal of a global company is to [send the same message worldwide](http://en.wikipedia.org/wiki/Global_Marketing), then delivering that message in a relevant, engaging, and cost-effective way is the challenge.

Effective global advertising techniques do exist. The key is testing advertising ideas using a marketing research system proven to provide results that can be compared across countries. The ability to identify which elements or moments of an ad are contributing to that success is how economies of scale are maximized. Market research measures such as [Flow of Attention](http://en.wikipedia.org/w/index.php?title=Flow_of_Attention&action=edit&redlink=1), [Flow of Emotion](http://en.wikipedia.org/w/index.php?title=Flow_of_Emotion&action=edit&redlink=1) and [branding moments](http://en.wikipedia.org/w/index.php?title=Branding_moment&action=edit&redlink=1) provide insights into what is working in an ad in any country because the measures are based on visual, not verbal, elements of the ad.

## Promotional mix

There are five main aspects of a **promotional mix**. These are:

* [***Advertising***](http://en.wikipedia.org/wiki/Advertising) - Presentation and promotion of ideas, goods, or services by an identified sponsor. *Examples: Print ads, radio, television, billboard, direct mail, brochures and catalogs, signs, in-store displays, posters, motion pictures, Web pages, banner ads, and emails.* (Always in Paid Form non personal)
* [***Personal selling***](http://en.wikipedia.org/wiki/Personal_selling) - A process of helping and persuading one or more prospects to purchase a good or service or to act on any idea through the use of an oral presentation. *Examples: Sales presentations, sales meetings, sales training and incentive programs for intermediary salespeople, samples, and telemarketing. Can be face-to-face or via telephone.*
* [***Sales promotion***](http://en.wikipedia.org/wiki/Sales_promotion) - Media and non-media marketing communication are employed for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability. *Examples: Coupons, sweepstakes, contests, product samples, rebates, tie-ins, self-liquidating premiums, trade shows, trade-ins, and exhibitions.*
* [***Public relations***](http://en.wikipedia.org/wiki/Public_relations) - Paid intimate stimulation of supply for a product, service, or business unit by planting significant news about it or favourable presentation of it in the media. *Examples: Newspaper and magazine articles/reports, TVs and radio presentations, charitable contributions, speeches, issue advertising, and seminars.*
* [***Direct Marketing***](http://en.wikipedia.org/wiki/Direct_Marketing) is a channel-agnostic form of advertising that allows businesses and nonprofits to communicate straight to the customer, with advertising techniques such as mobile messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising.

[***Corporate image***](http://en.wikipedia.org/wiki/Corporate_image) Corporate image may also be considered as the sixth aspect of promotion mix. The Image of an organization is a crucial point in marketing. If the reputation of a company is bad, consumers are less willing to buy a product from this company as they would have been, if the company had a good image. [***Sponsorship***](http://en.wikipedia.org/wiki/Sponsor_(commercial)) is sometimes added as a seventh aspect.

## Mission statement

A **mission statement** is a statement of the purpose of a [company](http://en.wikipedia.org/wiki/Company) or [organization](http://en.wikipedia.org/wiki/Organization). The mission statement should guide the actions of the organization, spell out its overall goal, provide a path, and guide decision-making. It provides "the framework or context within which the company's strategies are formulated."

## Contents

Effective mission statements commonly clarify the organization’s purpose and also ultimately seek to justify the organization's reason for existing.

Commercial mission statements often include the following information:

* Purpose and aim(s) of the organization
* The organization's primary stakeholders: clients/customers, shareholders, congregation, etc.
* How the organization provides value to these stakeholders, for example by offering specific types of products and/or services

According to Bart the commercial mission statement consists of 3 essential components:

1. Key market – who is your target client/customer? (generalize if needed)
2. Contribution – what product or service do you provide to that client?
3. Distinction – what makes your product or service unique, so that the client would choose you?

Examples of mission statements that clearly include the 3 essential components:

For example:

* McDonalds - "To provide the fast food customer food prepared in the same high-quality manner world-wide that is tasty, reasonably-priced & delivered consistently in a low-key décor and friendly atmosphere."
  + Key Market: The fast food customer world-wide
  + Contribution: tasty and reasonably-priced food prepared in a high-quality manner
  + Distinction: delivered consistently (world-wide) in a low-key décor and friendly atmosphere.
* Courtyard by Marriott - "To provide economy and quality minded travellers with a premier, moderate priced lodging facility which is consistently perceived as clean, comfortable, well-maintained, and attractive, staffed by friendly, attentive and efficient people
  + Key Market: economy and quality minded travellers
  + Contribution: moderate priced lodging
  + Distinction: consistently perceived as clean, comfortable, well-maintained, and attractive, staffed by friendly, attentive and efficient people

The mission statement can be used to resolve trade-offs between different business [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)). Stakeholders include: managers & executives, non-management employees, shareholders, board of directors, customers, suppliers, distributors, creditors/bankers, governments (local, state, federal, etc.), labour unions, competitors, [NGOs](http://en.wikipedia.org/wiki/Non-governmental_organization), and the community or general public. By definition, stakeholders affect or are affected by the organization's decisions and activities.

According to Vern McGinnisa mission should:

* Define what the company is
* Limited to exclude some ventures
* Broad enough to allow for creative growth
* Distinguish the company from all others
* Serve as framework to evaluate current activities
* Stated clearly so that it is understood by all

## Vision statement

**A vision statement** is sometimes called a picture of your company in the future but it’s so much more than that. Your vision statement is your inspiration, the framework for all your strategic planning. A vision statement may apply to an entire company or to a single division of that company. Whether for all or part of an organization, the vision statement answers the question, "Where do we want to go?" What you are doing when creating a vision statement is articulating your dreams and hopes for your business. It reminds you of what you are trying to build. While a vision statement doesn't tell you how you're going to get there, it does set the direction for your [business planning](http://sbinfocanada.about.com/od/businessplanning/g/bizplanning.htm). (For more on the role of your vision statement in business planning, see [Quick-Start Business Planning](http://sbinfocanada.about.com/od/businessplanning/a/fastbizplanning.htm).) That's why it's important when crafting a vision statement to let your imagination go and dare to dream – and why it’s important that a vision statement captures your passion.

Unlike the [mission statement](http://sbinfocanada.about.com/od/businessplanning/g/missionstatemen.htm), a vision statement is for you and the other members of your company, not for your customers or clients. When writing a vision statement, your mission statement and your [core competencies](http://sbinfocanada.about.com/od/management/g/corecompetence.htm) can be a valuable starting point for articulating your values. Be sure when you're creating one not to fall into the trap of only thinking ahead a year or two. Once you have one, your vision statement will have a huge influence on decision making and the way you allocate resources.

<http://sbinfocanada.about.com/od/businessplanning/g/visionstatement.htm>

## PEST analysis

**PEST analysis** stands for "**P**olitical, **E**conomic, **S**ocial, and **T**echnological analysis" and describes a framework of macro-environmental factors used in the [environmental scanning](http://en.wikipedia.org/wiki/Environmental_scanning) component of [strategic management](http://en.wikipedia.org/wiki/Strategic_management). Some analysts added **L**egal and rearranged the mnemonic to SLEPT;[[1]](http://en.wikipedia.org/wiki/PESTLE_analysis#cite_note-0) inserting **E**nvironmental factors expanded it to PESTEL or PESTLE, which is popular in the United Kingdom.[[2]](http://en.wikipedia.org/wiki/PESTLE_analysis#cite_note-1) The model has recently been further extended to STEEPLE and STEEPLED, adding Ethics and [demographic](http://en.wikipedia.org/wiki/Demographics) factors. It is a part of the external analysis when conducting a strategic analysis or doing [market research](http://en.wikipedia.org/wiki/Market_research), and gives an overview of the different macroenvironmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. The growing importance of environmental or ecological factors in the first decade of the 21st century have given rise to [green business](http://en.wikipedia.org/wiki/Green_business) and encouraged widespread use of an updated version of the PEST framework. STEER analysis systematically considers Socio-cultural, Technological, Economic, Ecological, and Regulatory factors.



## Composition

* **Political** factors are how and to what degree a [government](http://en.wikipedia.org/wiki/Government) intervenes in the economy. Specifically, political factors include areas such as [tax policy](http://en.wikipedia.org/wiki/Tax_policy), [labour law](http://en.wikipedia.org/wiki/Labour_law), [environmental law](http://en.wikipedia.org/wiki/Environmental_law), [trade restrictions](http://en.wikipedia.org/wiki/Trade_restriction), [tariffs](http://en.wikipedia.org/wiki/Tariffs), and political stability. Political factors may also include goods and services which the government wants to provide or be provided ([merit goods](http://en.wikipedia.org/wiki/Merit_good)) and those that the government does not want to be provided ([demerit goods](http://en.wikipedia.org/wiki/Demerit_good) or merit bads). Furthermore, governments have great influence on the [health](http://en.wikipedia.org/wiki/Health), [education](http://en.wikipedia.org/wiki/Education), and [infrastructure](http://en.wikipedia.org/wiki/Infrastructure) of a nation
* **Economic** factors include [economic growth](http://en.wikipedia.org/wiki/Economic_growth), [interest rates](http://en.wikipedia.org/wiki/Interest_rate), [exchange rates](http://en.wikipedia.org/wiki/Exchange_rate) and the [inflation rate](http://en.wikipedia.org/wiki/Inflation_rate). These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's [cost of capital](http://en.wikipedia.org/wiki/Cost_of_capital) and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy
* **Social** factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).
* **Technological** factors include technological aspects such as [R&D](http://en.wikipedia.org/wiki/R%26D) activity, [automation](http://en.wikipedia.org/wiki/Automation), technology incentives and the rate of [technological change](http://en.wikipedia.org/wiki/Technological_change). They can determine [barriers to entry](http://en.wikipedia.org/wiki/Barrier_to_entry), minimum efficient production level and influence [outsourcing](http://en.wikipedia.org/wiki/Outsourcing) decisions. Furthermore, technological shifts can affect costs, quality, and lead to [innovation](http://en.wikipedia.org/wiki/Innovation).
* **Environmental** factors include ecological and environmental aspects such as weather, climate, and [climate change](http://en.wikipedia.org/wiki/Climate_change), which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.
* **Legal** factors include [discrimination law](http://en.wikipedia.org/wiki/Discrimination_law), [consumer law](http://en.wikipedia.org/wiki/Consumer_law), [antitrust law](http://en.wikipedia.org/wiki/Antitrust_law), [employment law](http://en.wikipedia.org/wiki/Employment_law), and [health and safety law](http://en.wikipedia.org/wiki/Health_and_safety_law). These factors can affect how a company operates, its costs, and the demand for its products.

## Applicability of the Factors

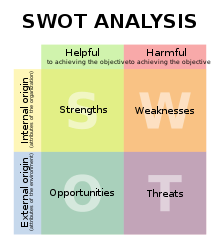
The model's factors will vary in importance to a given company based on its industry and the goods it produces. For example, consumer and [B2B](http://en.wikipedia.org/wiki/Business-to-business) companies tend to be more affected by the social factors, while a global defense contractor would tend to be more affected by political factors.[[3]](http://en.wikipedia.org/wiki/PESTLE_analysis#cite_note-2) Additionally, factors that are more likely to change in the future or more relevant to a given company will carry greater importance. For example, a company which has borrowed heavily will need to focus more on the economic factors (especially interest rates).[[4]](http://en.wikipedia.org/wiki/PESTLE_analysis#cite_note-Oxford-3)

Furthermore, conglomerate companies who produce a wide range of products (such as Sony, Disney, or BP) may find it more useful to analyze one department of its company at a time with the PESTEL model, thus focusing on the specific factors relevant to that one department. A company may also wish to divide factors into geographical relevance, such as local, national, and global (also known as LONGPESTEL).

## Use of PEST analysis with other models

The PEST factors, combined with external micro-environmental factors and internal drivers, can be classified as opportunities and threats in a [SWOT analysis](http://en.wikipedia.org/wiki/SWOT_analysis).

## SWOT analysis

[](http://en.wikipedia.org/wiki/File:SWOT_en.svg)

[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:SWOT_en.svg)

SWOT analysis, with its four elements in a 2x2 matrix.

**SWOT analysis** (alternately **SLOT analysis**) is a [strategic planning](http://en.wikipedia.org/wiki/Strategic_planning) method used to evaluate the **S**trengths, **W**eaknesses/Limitations, **O**pportunities, and **T**hreats involved in a [project](http://en.wikipedia.org/wiki/Project) or in a [business](http://en.wikipedia.org/wiki/Business) venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective. The technique is credited to [Albert Humphrey](http://en.wikipedia.org/wiki/Albert_S._Humphrey), who led a convention at the Stanford Research Institute (now [SRI International](http://en.wikipedia.org/wiki/SRI_International)) in the 1960s and 1970s using data from [Fortune 500](http://en.wikipedia.org/wiki/Fortune_500) companies.

Setting the objective should be done after the SWOT analysis has been performed. This would allow achievable goals or objectives to be set for the organization.

* **S**trengths: characteristics of the business, or project team that give it an advantage over others
* **W**eaknesses (or Limitations): are characteristics that place the team at a disadvantage relative to others
* **O**pportunities: *external* chances to improve performance (e.g. make greater profits) in the environment
* **T**hreats: *external* elements in the environment that could cause trouble for the business or project

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs.

First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

Users of SWOT analysis need to ask and answer questions that generate meaningful information for each category (strengths, opportunities, weaknesses, and threats) in order to maximize the benefits of this evaluation and find their competitive advantage.

## Porter five forces analysis

[](http://en.wikipedia.org/wiki/File:Porters_five_forces.PNG)

[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Porters_five_forces.PNG)

A graphical representation of Porter's Five Forces

**Porter's five forces analysis** is a framework for industry analysis and business strategy development formed by [Michael E. Porter](http://en.wikipedia.org/wiki/Michael_Porter) of [Harvard Business School](http://en.wikipedia.org/wiki/Harvard_Business_School) in 1979. It draws upon [industrial organization (IO) economics](http://en.wikipedia.org/wiki/Industrial_organization) to derive five forces that determine the competitive intensity and therefore attractiveness of a [market](http://en.wikipedia.org/wiki/Market). Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to [normal profit](http://en.wikipedia.org/wiki/Profit_(economics)#Normal_profit).

Three of Porter's five forces refer to competition from external sources. The remainder are internal threats.

Porter referred to these forces as the [micro environment](http://en.wikipedia.org/wiki/Marketing#Marketing_environment), to contrast it with the more general term [macro environment](http://en.wikipedia.org/wiki/Environmental_scanning). They consist of those forces close to a [company](http://en.wikipedia.org/wiki/Company) that affect its ability to serve its customers and make a [profit](http://en.wikipedia.org/wiki/Profit_(economics)). A change in any of the forces normally requires a business unit to re-assess the [marketplace](http://en.wikipedia.org/wiki/Marketplace) given the overall change in [industry information](http://en.wikipedia.org/wiki/Industry_information). The overall industry attractiveness does not imply that every [firm](http://en.wikipedia.org/wiki/Firm) in the industry will return the same profitability. Firms are able to apply their [core competencies](http://en.wikipedia.org/wiki/Core_competencies), [business model](http://en.wikipedia.org/wiki/Business_model) or network to achieve a profit above the industry average. A clear example of this is the airline [industry](http://en.wikipedia.org/wiki/Industry). As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return in excess of the industry average.

Porter's five forces include - three forces from 'horizontal' competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the [bargaining power](http://en.wikipedia.org/wiki/Bargaining_power) of suppliers and the bargaining power of customers.

This five forces analysis is just one part of the complete Porter strategic models. The other elements are the [value chain](http://en.wikipedia.org/wiki/Value_chain) and the [generic strategies](http://en.wikipedia.org/wiki/Porter_generic_strategies).

Porter developed his Five Forces analysis in reaction to the then-popular [SWOT analysis](http://en.wikipedia.org/wiki/SWOT_analysis), which he found unrigorous and *ad hoc*. Porter's five forces are based on the Structure-Conduct-Performance paradigm in industrial organizational economics. It has been applied to a diverse range of problems, from helping businesses become more profitable to helping governments stabilize industries.

**Five forces**

### 1. Threat of new competition

### 2. Threat of substitute products or services

### 3. Bargaining power of customers (buyers)

### 4. Bargaining power of suppliers

**5. Intensity of competitive rivalry**

## Public relations

**Public relations -** (PR) is the practice of managing the flow of [information](http://en.wikipedia.org/wiki/Information) between an individual or an [organization](http://en.wikipedia.org/wiki/Organization) and the [public](http://en.wikipedia.org/wiki/Public). Public relations is the deliberate, planned, and sustained effort to establish and maintain a preferred point of view. Public relations provide an organization or [individual](http://en.wikipedia.org/wiki/Individual) [exposure](http://en.wikipedia.org/wiki/Publicity) to their audiences using topics of public interest and news items that do not require direct payment. The aim of public relations by a company often is to persuade the public, investors, partners, employees, and other stakeholders to maintain a certain point of view about it, its leadership, products, or of political decisions. Common activities include speaking at conferences, winning industry awards, working with the press, and employee communication

Specific public relations disciplines include:

* Financial public relations – providing information mainly to business [reporters](http://en.wikipedia.org/wiki/Reporter)
* Consumer/lifestyle public relations – gaining publicity for a particular product or service, rather than using [advertising](http://en.wikipedia.org/wiki/Advertising)
* Crisis public relations – responding to negative accusations or information
* Industry relations – providing information to [trade bodies](http://en.wikipedia.org/wiki/Trade_bodies)
* Government relations – engaging government departments to influence policymaking

Other public relations activities include:

* Publicity events, [pseudo-events](http://en.wikipedia.org/wiki/Pseudo-event), [photo ops](http://en.wikipedia.org/wiki/Photo_op) or [publicity stunts](http://en.wikipedia.org/wiki/Publicity_stunt)
* Speeches to constituent groups and professional organizations; receptions; seminars, and other events; personal appearances
* [Talk show](http://en.wikipedia.org/wiki/Talk_show) circuit: a public relations spokesperson, or the client, "does the circuit" by being interviewed on television and radio talk shows with audiences that the client wishes to reach
* Books and other writings
* Collateral literature, both offline and online
* Direct communication (carrying messages directly to audiences, rather than via the mass media) with, for example, printed or email newsletters
* [Blogs](http://en.wikipedia.org/wiki/Blogs)
* Social media and social networks

## Advertising

**Advertising** is a form of [communication](http://en.wikipedia.org/wiki/Communication) used to encourage or [persuade](http://en.wikipedia.org/wiki/Persuade) an audience (viewers, readers or listeners; sometimes a specific group of people) to continue or take some new action. Most commonly, the desired result is to drive consumer behaviour with respect to a commercial offering, although political and ideological advertising is also common. The purpose of advertising may also be to reassure employees or shareholders that a company is viable or successful. Advertising messages are usually paid for by [sponsors](http://en.wikipedia.org/wiki/Sponsor_(commercial)) and viewed via various [traditional media](http://en.wikipedia.org/wiki/Traditional_media); including [mass media](http://en.wikipedia.org/wiki/Mass_media) such as [newspaper](http://en.wikipedia.org/wiki/Newspaper), [magazines](http://en.wikipedia.org/wiki/Magazines), [television commercial](http://en.wikipedia.org/wiki/Television_commercial), [radio advertisement](http://en.wikipedia.org/wiki/Radio_advertisement), [outdoor advertising](http://en.wikipedia.org/wiki/Outdoor_advertising) or [direct mail](http://en.wikipedia.org/wiki/Direct_mail); or [new media](http://en.wikipedia.org/wiki/New_media) such as [blogs](http://en.wikipedia.org/wiki/Blog), [websites](http://en.wikipedia.org/wiki/Website) or [text messages](http://en.wikipedia.org/wiki/Text_messaging).

Commercial advertisers often seek to generate increased [consumption](http://en.wikipedia.org/wiki/Consumption_(economics)) of their [products](http://en.wikipedia.org/wiki/Product_(business)) or [services](http://en.wikipedia.org/wiki/Service_(economics)) through "[branding](http://en.wikipedia.org/wiki/Brand)," which involves the repetition of an image or product name in an effort to associate certain qualities with the brand in the minds of [consumers](http://en.wikipedia.org/wiki/Consumer). [Non-commercial](http://en.wikipedia.org/wiki/Non-commercial) advertisers who spend money to advertise items other than a consumer product or service include political parties, interest groups, religious organizations and governmental agencies. [Non-profit organizations](http://en.wikipedia.org/wiki/Nonprofit_organizations) may rely on free modes of [persuasion](http://en.wikipedia.org/wiki/Persuasion), such as a [public service announcement](http://en.wikipedia.org/wiki/Public_service_announcement) (PSA).

Modern advertising developed with the rise of [mass production](http://en.wikipedia.org/wiki/Mass_production) in the late 19th and early 20th centuries.

## Brand

A **brand** is a "Name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers."[*Branding*](http://en.wikipedia.org/wiki/Livestock_branding) began as a way to tell one person's cattle from another by means of a [hot iron stamp](http://en.wikipedia.org/wiki/Branding_iron). A modern example of a brand is *Coca Cola* which belongs to the Coca-Cola Company.

**Marque**or **make** are often used to denote a brand of [motor vehicle](http://en.wikipedia.org/wiki/Motor_vehicle). A **concept brand** is a brand that is associated with an abstract concept, like [breast cancer awareness](http://en.wikipedia.org/wiki/Breast_cancer_awareness) or [environmentalism](http://en.wikipedia.org/wiki/Environmentalism), rather than a specific product, service, or business. A **commodity brand** is a brand associated with a [commodity](http://en.wikipedia.org/wiki/Commodity). [Got milk?](http://en.wikipedia.org/wiki/Got_milk%3F) is an example of a commodity brand.

### Brand awareness

Brand awareness refers to customers' ability to recall and recognize the brand under different conditions and link to the brand name, logo, jingles and so on to certain associations in memory. It consists of both brand recognition and brand recall. It helps the customers to understand to which product or service category the particular brand belongs and what products and services are sold under the brand name. It also ensures that customers know which of their needs are satisfied by the brand through its products (Keller). Brand awareness is of critical importance since customers will not consider your brand if they are not aware of it.[[13]](http://en.wikipedia.org/wiki/Brand#cite_note-12)

There are various levels of brand awareness that require different levels and combinations of brand recognition and recall. Top-of-Mind is the goal of most companies. **Top-of-Mind Awareness** occurs when your brand is what pops into a consumers mind when asked to name brands in a product category. For example, when someone is asked to name a type of facial tissue, the common answer is “Kleenex,” which is a top-of-mind brand. **Aided Awareness** occurs when a consumer is shown or reads a list of brands, and expresses familiarity with your brand only after they hear or see it as a type of memory aide. **Strategic Awareness** occurs when your brand is not only top-of-mind to consumers, but also has distinctive qualities that stick out to consumers as making it better than the other brands in your market. The distinctions that set your product apart from the competition is also known as the Unique Selling Point or USP.

### Brand elements

Brands typically are made up of various elements, such as:

* Name: The word or words used to identify a company, product, service, or concept.
* Logo: The visual trademark that identifies the brand.
* Tagline or Catchphrase: "The Quicker Picker Upper" is associated with Bounty paper towels. "Can you hear me now" is an important part of the Verizon brand.
* Graphics: The dynamic ribbon is a trademarked part of Coca-Cola's brand.
* Shapes: The distinctive shapes of the Coca-Cola bottle and of the Volkswagen Beetle are trademarked elements of those brands.
* Colours: Owens-Corning is the only brand of fibreglass insulation that can be pink.
* Sounds: A unique tune or set of notes can denote a brand. NBC's chimes are a famous example.
* Scents: The rose-jasmine-musk scent of Chanel No. 5 is trademarked.
* Tastes: Kentucky Fried Chicken has trademarked its special recipe of eleven herbs and spices for fried chicken.
* Movements: Lamborghini has trademarked the upward motion of its car doors.

### Global brand

A global brand is one which is perceived to reflect the same set of values around the world. Global brands transcend their origins and create strong enduring relationships with consumers across countries and cultures. They are brands sold in international markets. Examples of global brands include  [Facebook](http://en.wikipedia.org/wiki/Facebook),  [Apple](http://en.wikipedia.org/wiki/Apple_Inc.), [Pepsi](http://en.wikipedia.org/wiki/Pepsi), [McDonald's](http://en.wikipedia.org/wiki/McDonald%27s), [Mastercard](http://en.wikipedia.org/wiki/Mastercard), [Gap](http://en.wikipedia.org/wiki/Gap_(clothing_retailer)), [Sony](http://en.wikipedia.org/wiki/Sony) and [Nike](http://en.wikipedia.org/wiki/Nike,_Inc.). These brands are used to sell the same product across multiple markets and could be considered successful to the extent that the associated products are easily recognizable by the diverse set of consumers.

[[](http://en.wikipedia.org/wiki/File:Coca-Cola_logo.svg)](http://en.wikipedia.org/wiki/File:Coca-Cola_logo.svg)

[http://bits.wikimedia.org/static-1.20wmf3/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Coca-Cola_logo.svg)

The [Coca-Cola](http://en.wikipedia.org/wiki/Coca-Cola) logo is an example of a widely-recognized trademark and global brand.

# IX Management

**Management** is the act of getting people together to accomplish desired goals and [objectives](http://en.wikipedia.org/wiki/Objective_(goal)) using available resources efficiently and effectively. Management comprises [planning](http://en.wikipedia.org/wiki/Planning), [organizing](http://en.wikipedia.org/wiki/Organizing), [staffing](http://en.wikipedia.org/wiki/Human_resources), [leading](http://en.wikipedia.org/wiki/Leadership) or directing, and [controlling](http://en.wikipedia.org/wiki/Control_(management)) an [organization](http://en.wikipedia.org/wiki/Organization) (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. [Resourcing](http://en.wikipedia.org/wiki/Resourcing) encompasses the deployment and manipulation of [human resources](http://en.wikipedia.org/wiki/Human_resources), [financial](http://en.wikipedia.org/wiki/Financial) resources, [technological](http://en.wikipedia.org/wiki/Technological) resources and [natural resources](http://en.wikipedia.org/wiki/Natural_resources).

Since organizations can be viewed as [systems](http://en.wikipedia.org/wiki/Systems), management can also be defined as human action, including design, to facilitate the production of useful outcomes from a system. This view opens the opportunity to 'manage' oneself, a pre-requisite to attempting to manage others.

## Topics

### Basic roles

* **Interpersonal**: roles that involve coordination and interaction with employees, networking.
* **Informational**: roles that involve handling, sharing, and analyzing information.
* **Decisional**: roles that require decision-making.

### Management skills

* **Political**: used to build a power base and establish connections.
* **Conceptual**: used to analyze complex situations.
* **Interpersonal**: used to communicate, motivate, mentor and delegate.
* **Diagnostic**: the ability to visualize most appropriate response to a situation .

### Formation of the business policy

* The mission of the business is the most obvious purpose—which may be, for example, to make soap.
* The vision of the business reflects its aspirations and specifies its intended direction or future destination.
* The objectives of the business refer to the ends or activity at which a certain task is aimed.
* The business's policy is a guide that stipulates rules, regulations and objectives, and may be used in the managers' decision-making. It must be flexible and easily interpreted and understood by all employees.
* The business's strategy refers to the coordinated plan of action that it is going to take, as well as the resources that it will use, to realize its vision and long-term objectives. It is a guideline to managers, stipulating how they ought to allocate and utilize the factors of production to the business's advantage. Initially, it could help the managers decide on what type of business they want to form.

#### Implementation of policies and strategies

* All policies and strategies must be discussed with all managerial personnel and staff.
* Managers must understand where and how they can implement their policies and strategies.
* A plan of action must be devised for each department.
* Policies and strategies must be reviewed regularly.
* Contingency plans must be devised in case the environment changes.
* Assessments of progress ought to be carried out regularly by top-level managers.
* A good environment and team spirit is required within the business.
* The missions, objectives, strengths and weaknesses of each department must be analyzed to determine their roles in achieving the business's mission.
* The forecasting method develops a reliable picture of the business's future environment.
* A planning unit must be created to ensure that all plans are consistent and that policies and strategies are aimed at achieving the same mission and objectives. All policies must be discussed with all managerial personnel and staff that is required in the execution of any departmental policy.
* Organizational change is strategically achieved through the implementation of the eight-step plan of action established by [John P. Kotter](http://en.wikipedia.org/wiki/John_Kotter): Increase urgency, form a coalition, get the vision right, communicate the buy-in, empower action, create short-term wins, don't let up, and make change stick.

#### Policies and strategies in the planning process

* They give mid- and lower-level managers a good idea of the future plans for each department in an organization.
* A framework is created whereby plans and decisions are made.
* Mid- and lower-level management may adapt their own plans to the business's strategic ones.

### Levels of management

Most organizations have three management levels: low-level, middle-level, and top-level managers. These managers are classified in a hierarchy of authority, and perform different tasks. In many organizations, the number of managers in every level resembles a pyramid. Each level is explained below in specifications of their different responsibilities and likely job titles.[[9]](http://en.wikipedia.org/wiki/Management#cite_note-8)

#### Top-level managers

Consists of [board of directors](http://en.wikipedia.org/wiki/Board_of_directors), president, vice-president, [CEOs](http://en.wikipedia.org/wiki/CEO), etc. They are responsible for controlling and overseeing the entire organization. They develop goals, strategic plans, company policies, and make decisions on the direction of the business. In addition, top-level managers play a significant role in the mobilization of outside resources and are accountable to the shareholders and general public.

According to Lawrence S. Kleiman, the following skills are needed at the top managerial level.

* Broadened understanding of how: competition, world economies, politics, and social trends effect organizational effectiveness.

#### Middle-level managers

Consist of general managers, branch managers and department managers. They are accountable to the top management for their department's function. They devote more time to organizational and directional functions. Their roles can be emphasized as executing organizational plans in conformance with the company's policies and the objectives of the top management, they define and discuss information and policies from top management to lower management, and most importantly they inspire and provide guidance to lower level managers towards better performance. Some of their functions are as follows:

* Designing and implementing effective group and intergroup work and information systems.
* Defining and monitoring group-level performance indicators.
* Diagnosing and resolving problems within and among work groups.
* Designing and implementing reward systems supporting cooperative behaviour.

#### Low-level managers

Consist of supervisors, section leads, foremen, etc. They focus on controlling and directing. They usually have the responsibility of assigning employees tasks, guiding and supervising employees on day-to-day activities, ensuring quality and quantity production, making recommendations, suggestions, and up channelling employee problems, etc. First-level managers are role models for employees that provide:

* Basic supervision.
* Motivation.
* Career planning.
* Performance feedback.
* Supervising the staffs.

## Operations management

**Operations management** is an area of [management](http://en.wikipedia.org/wiki/Management) concerned with overseeing, designing, controlling the process of production and redesigning [business operations](http://en.wikipedia.org/wiki/Business_operations) in the production of goods and/or services. It involves the responsibility of ensuring that business operations are [efficient](http://en.wikipedia.org/wiki/Efficiency) in terms of using as few resources as needed, and [effective](http://en.wikipedia.org/wiki/Effective) in terms of meeting customer requirements. It is concerned with managing the process that converts inputs (in the forms of materials, labor, and energy) into outputs (in the form of goods and/or services). The relationship of operations management to [senior management](http://en.wikipedia.org/wiki/Senior_management) in commercial contexts can be compared to the relationship of [line officers](http://en.wikipedia.org/wiki/Line_officer) to highest-level senior officers in [military science](http://en.wikipedia.org/wiki/Military_science). The highest-level officers shape the [strategy](http://en.wikipedia.org/wiki/Strategy) and revise it over time, while the line officers make [tactical](http://en.wikipedia.org/wiki/Military_tactics) decisions in support of carrying out the strategy. In business as in military affairs, the boundaries between levels are not always distinct; tactical information dynamically informs strategy, and individual people often move between roles over time.

According to the U.S. Department of Education, operations management is the field concerned with managing and directing the physical and/or technical functions of a firm or organization, particularly those relating to development, production, and manufacturing. Operations management programs typically include instruction in principles of general management, manufacturing and production systems, plant management, equipment maintenance management, production control, industrial labor relations and skilled trades supervision, strategic manufacturing policy, systems analysis, productivity analysis and cost control, and materials planning. Management, including operations management, is like [engineering](http://en.wikipedia.org/wiki/Engineering) in that it blends art with [applied science](http://en.wikipedia.org/wiki/Applied_science). People skills, creativity, rational analysis, and knowledge of technology are all required for success.

## Strategic management

**Strategic management** is a field that deals with the major intended and emergent initiatives taken by [general managers](http://en.wikipedia.org/wiki/General_manager) on behalf of owners, involving utilization of [resources](http://en.wikipedia.org/wiki/Factors_of_production), to enhance the performance of [ﬁrms](http://en.wikipedia.org/wiki/Business) in their external environments.[[1]](http://en.wikipedia.org/wiki/Strategic_management#cite_note-0) It entails specifying the [organization](http://en.wikipedia.org/wiki/Organization)'s [mission](http://en.wikipedia.org/wiki/Mission_statement), vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. A [balanced scorecard](http://en.wikipedia.org/wiki/Balanced_scorecard) is often used to evaluate the overall performance of the [business](http://en.wikipedia.org/wiki/Business) and its progress towards objectives. Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations and use a modified balanced scorecard which includes all stakeholders.

Strategic management is a level of managerial activity under setting goals and over [Tactics](http://en.wikipedia.org/wiki/Tactic_(method)). Strategic management provides overall direction to the enterprise and is closely related to the field of [Organization Studies](http://en.wikipedia.org/wiki/Organization_Studies). In the field of business administration it is useful to talk about "strategic alignment" between the organization and its environment or "strategic consistency." According to Arieu (2007), "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context." Strategic management includes not only the management team but can also include the Board of Directors and other stakeholders of the organization. It depends on the organizational structure.

“Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment.” Strategic Management can also be defined as "the identification of the purpose of the organization and the plans and actions to achieve the purpose. It is that set of managerial decisions and actions that determine the long term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organization and its environmental to achieve organizational goals."

## Concepts/approaches of strategic management

Strategic management can depend upon the size of an organization, and the proclivity to change of its business environment. These points are highlighted below:

* A global/transnational organization may employ a more structured strategic management model, due to its size, scope of operations, and need to encompass stakeholder views and requirements.
* An SME (Small and Medium Enterprise) may employ an entrepreneurial approach. This is due to its comparatively smaller size and scope of operations, as well as possessing fewer resources. An SME's CEO (or general top management) may simply outline a mission, and pursue all activities under that mission.
* Whittington (2001) highlighted four approaches to strategic management, utilising different factors that organisations may face. These are the Classical, Processual, Evolutionary and Systemic approaches. Each paradigm is suited to specific environmental factors, of which global firms have faced over the past 4/5 decades.
* Mintzberg has stated there are prescriptive (what should be) and descriptive (what is) schools, in the sense that the prescriptive schools are "one size fits all" approaches designed to work as best practice methods, and the descriptive schools merely describe how corporate strategy is devised in given contexts.

It can be said that there is no overriding strategic managerial method, and that a number of differing variables must be taken into account, relative to how a corporate strategic plan is outlined. It can also be said to be a subjective and highly contextual process.

## Strategy formation (Classical school)

The Classical School of strategic management is the most taught and deployed approach, of which most textbooks on the subject convey. The essential points of the approach are "where are we now?", "where do we want to be?" and "how do we get there?". It thus comprises an environmental analysis, a choice of available options, and determining a path for action and implementation.

The initial task in strategic management is typically the compilation and dissemination of a mission statement. This document outlines, in essence, the raison d'etre of an organization. Additionally, it specifies the scope of activities an organization wishes to undertake, coupled with the markets a firm wishes to serve.

Following the devising of a mission statement, a firm would then undertake an environmental scanning within the purview of the statement.

Strategic formation is a combination of three main processes which are as follows:

* Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.
* Concurrent with this assessment, objectives are set. These objectives should be parallel to a time-line; some are in the short-term and others on the long-term. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.

### Strategy evaluation and choice

An environmental scan will highlight all pertinent aspects that affect an organization, whether external or sector/industry-based. Such an occurrence will also uncover areas to capitalise on, in addition to areas in which expansion may be unwise.

These options, once identified, have to be vetted and screened by an organization. In addition to ascertaining the suitability, feasibility and acceptability of an option, the actual modes of progress have to be determined. These pertain to:

#### The basis of competition

The basis of competition is the competitive advantage used or established by the strategy. This advantage may derive from how an organization produces its products, how it acts within a market relative to its competitors, or other aspects of the business. Specific approaches may include:

* Differentiation, in which a multitude of market segments are served on a mass scale. An example will include the array of products produced by Unilever, or Procter and Gamble, as both forge many of the world’s noted consumer brands serving a variety of market segments.
* Cost-based, which often concerns economy pricing. An example would be dollar stores in the United States.
* Market segmentation (or niche), in which products are tailored for the unique needs of a niche market, as opposed to a mass market. An example is Aston Martin cars.

#### Mode of action

* Measuring the effectiveness of the organizational strategy, it's extremely important to conduct a [SWOT analysis](http://en.wikipedia.org/wiki/SWOT_analysis) to figure out the internal strengths and weaknesses, and external opportunities and threats of the entity in business. This may require taking certain precautionary measures or even changing the entire strategy.

In corporate strategy, Johnson, Scholes and Whittington present a model in which strategic options are evaluated against three key success criteria:

* Suitability; would it work?
* Feasibility; can it be made to work?
* Acceptability; will they work it?

#### Suitability

Suitability deals with the overall rationale of the strategy. The key point to consider is whether the strategy would address the key strategic issues underlined by the organisation's strategic position.

* Does it make economic sense?
* Would the organization obtain [economies of scale](http://en.wikipedia.org/wiki/Economies_of_scale) or [economies of scope](http://en.wikipedia.org/wiki/Economies_of_scope)?
* Would it be suitable in terms of environment and capabilities?

Tools that can be used to evaluate suitability include:

* Ranking strategic options
* [Decision trees](http://en.wikipedia.org/wiki/Decision_tree)

#### Feasibility

Feasibility is concerned with whether the resources required to implement the strategy are available, can be developed or obtained. Resources include **funding**, **people**, **time**, and **information**. or cash flow in the market

Tools that can be used to evaluate feasibility include:

* [cash flow](http://en.wikipedia.org/wiki/Cash_flow) analysis and [forecasting](http://en.wikipedia.org/wiki/Forecasting)
* [break-even](http://en.wikipedia.org/wiki/Break-even) analysis
* resource deployment analysis

#### Acceptability

Acceptability is concerned with the expectations of the identified stakeholders (mainly shareholders, employees and customers) with the expected performance outcomes, which can be return, risk and stakeholder/stakeholders reactions.

* **Return** deals with the benefits expected by the stakeholders (financial and non-financial). For example, shareholders would expect the increase of their wealth, employees would expect improvement in their careers and customers would expect better value for money.
* **Risk** deals with the probability and consequences of failure of a strategy (financial and non-financial).
* **Stakeholder reactions** deal with anticipating the likely reaction of stakeholders. Shareholders could oppose the issuing of new shares, employees and unions could oppose outsourcing for fear of losing their jobs, customers could have concerns over a merger with regards to quality and support.

Tools that can be used to evaluate acceptability include:

* [what-if analysis](http://en.wikipedia.org/wiki/What-if_analysis)
* [stakeholder](http://en.wikipedia.org/wiki/Stakeholder_(corporate)) mapping

#### The direction of action

Strategic options may span a number of options, including:

* Growth-based (inspired by Igor Ansoff's matrix – market development, product development, market penetration, diversification)
* Consolidation
* Divestment
* Harvesting

The exact option depends on the given resources of the firm, in addition to the nature of products' performance in given industries. A generally well-performing organisation may seek to harvest (,i.e. let a product die a natural death in the market) a product, if via portfolio analysis it was performing poorly comparative to others in the market.

Additionally, the exact means of implementing a strategy needs to be considered. These points range from:

* Strategic alliances
* Capital Expenditures (CAPEX)
* Internal development (,i.e. utilising one's own strategic capability in a given course of action)
* M&A (Mergers and Acquisitions)

The chosen option in this context is dependent on the strategic capabilities of a firm. A company may opt for an acquisition (actually buying and absorbing a smaller firm), if it meant speedy entry into a market or lack of time in internal development. A strategic alliance (such as a network, consortium or joint venture) can leverage on mutual skills between companies. Some countries, such as India and China, specifically state that FDI in their countries should be executed via a strategic alliance arrangement.

### Strategic implementation and control

Once a strategy has been identified, it must then be put into practice. The implementation of strategy is of great importance. Conducting a corporate strategy is worthless as long as it is not implemented correctly by each department of the organization This may involve organising, resourcing and utilising change management procedures:

#### Organizing

Organizing relates to how an organizational design of a company can fit or align with a chosen strategy. This concerns the nature of reporting relationships, spans of control, and any strategic business units (SBUs) that require to be formed. Typically, an SBU will be created (which often has some degree of autonomous decision-making) if it exists in a market with unique conditions, or has/requires unique strategic capabilities (,i.e. the skills needed for the running and competition of the SBU are different).

#### Resourcing

Resourcing is literally the resources required to put the strategy into practice, ranging from human resources, to capital equipment, and to ICT-based implements.

#### Change management

In the process of implementing strategic plans, an organization must be wary of forces that may legitimately seek to obstruct such changes. It is important then that effectual change management practices are instituted. These encompass:

* The appointment of a change agent, as an individual who would champion the changes and seek to reassure and allay any fears arising.
* Ascertaining the causes of the resistance to organizational change (whether from employees, perceived loss of job security, etc.)
* Via change agency, slowly limiting the negative effects that a change may uncover.

## Benchmarking

**Benchmarking** is the process of comparing one's business processes and [performance metrics](http://en.wikipedia.org/wiki/Performance_metric) to industry bests or [best practices](http://en.wikipedia.org/wiki/Best_practice) from other industries. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied (the "targets") to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

The term *benchmarking* was first used by [cobblers](http://en.wikipedia.org/wiki/Shoemaking) to measure people's feet for shoes. They would place someone's foot on a "bench" and mark it out to make the pattern for the shoes. Benchmarking is used to measure performance using a specific [indicator](http://en.wikipedia.org/wiki/Performance_indicator) (cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure or defects per unit of measure) resulting in a metric of performance that is then compared to others.

Also referred to as "best practice benchmarking" or "process benchmarking", this process is used in management and particularly [strategic management](http://en.wikipedia.org/wiki/Strategic_management), in which organizations evaluate various aspects of their processes in relation to best practice companies' processes, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.

## Benefits and use

In 2008, a comprehensive survey [[1]](http://en.wikipedia.org/wiki/Benchmarking#cite_note-0) on benchmarking was commissioned by The Global Benchmarking Network, a network of benchmarking centers representing 22 countries. Over 450 organizations responded from over 40 countries. The results showed that:

1. Mission and Vision Statements and Customer (Client) Surveys are the most used (by 77% of organizations of 20 improvement tools, followed by [SWOT analysis](http://en.wikipedia.org/wiki/SWOT_analysis) (72%), and Informal Benchmarking (68%). [Performance Benchmarking](http://en.wikipedia.org/w/index.php?title=Performance_Benchmarking&action=edit&redlink=1) was used by 49% and Best Practice Benchmarking by 39%.
2. The tools that are likely to increase in popularity the most over the next three years are Performance Benchmarking, Informal Benchmarking, SWOT, and Best Practice Benchmarking. Over 60% of organizations that are not currently using these tools indicated they are likely to use them in the next three years.

Core competency

A **core competency** is a concept in management theory originally advocated by CK Prahalad, and Gary Hamel, two business book writers. In their view a core competency is a specific factor that a [business](http://en.wikipedia.org/wiki/Business) sees as being central to the way it, or its [employees](http://en.wikipedia.org/wiki/Employees), works. It fulfills three key criteria:

1. It is not easy for competitors to imitate.
2. It can be re-used widely for many products and markets.
3. It must contribute to the end consumer's experienced benefits.

A core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers.[[1]](http://en.wikipedia.org/wiki/Core_competence#cite_note-0) It may also include product development or culture, such as employee dedication, best Human Resource Management (HRM), good market coverage etc.

Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies are the collective learning in organizations, and involve how to coordinate diverse production skills and integrate multiple streams of technologies. It is communication, an involvement and a deep commitment to working across organizational boundaries. Few companies are likely to build world leadership in more than five or six fundamental competencies.

For an example of core competencies, when studying Walt Disney World - Parks and Resorts, there are three main core competencies:

* Animatronics and Show Design
* [Storytelling](http://en.wikipedia.org/wiki/Storytelling), Story Creation and Themed Atmospheric Attractions
* Efficient operation of theme parks

The [value chain](http://en.wikipedia.org/wiki/Value_chain) is a systematic approach to examining the development of competitive advantage. It was created by [M. E. Porter](http://en.wikipedia.org/wiki/Michael_Porter) in his book, *Competitive Advantage* (1980). The chain consists of a series of activities that create and build value. They culminate in the total value delivered by an organization. The 'margin' depicted in the diagram is the same as added value. The organization is split into 'primary activities' and 'support activities'.

Core Competence

A core competence is the result of a specific set of skills or production techniques that deliver value to the customer. Such competences enable an organization to access a wide variety of markets. Executives should estimate the future challenges and opportunities of the business in order to stay on top of the game in varying situations.

In 1990 with their article titled "The Core Competence of the Corporation", Prahalad and Hamel illustrated that core competencies lead to the development of core products which further can be used to build many products for end users. Core competencies are developed through the process of continuous improvements over the period of time. To succeed in an emerging global market it is more important and required to build core competencies rather than [vertical integration](http://en.wikipedia.org/wiki/Vertical_integration). [NEC](http://en.wikipedia.org/wiki/NEC) utilized its portfolio of core competencies to dominate the semiconductor, telecommunications and consumer electronics market. It is important to identify core competencies because it is difficult to retain those competencies in a price war and cost cutting environment. The author used the example of how to integrate core competences using strategic architecture in view of changing market requirements and evolving technologies. Management must realize that stakeholders to core competences are an asset which can be utilized to integrate and build the competencies. Competence building is an outcome of strategic architecture which must be enforced by top management in order to exploit its full capacity.

In *Competing for the Future*, the authors Prahalad and Hamel show how executives can develop the industry foresight necessary to adapt to industry changes, discover ways of controlling resources that will enable the company to attain goals despite any constraints. Executives should develop a point of view on which core competencies can be built for the future to revitalize the process of new business creation. The key to future industry leadership is to develop an independent point of view about tomorrow's opportunities and build capabilities that exploit them.

In order to be competitive an organization needs tangible resources but intangible resources like core competences are difficult and challenging to achieve. It is even critical to manage and enhance the competences with reference to industry changes and their future. For example, Microsoft has expertise in many IT based innovations where for a variety of reasons it is difficult for competitors to replicate Microsoft's core competences.

In a race to achieve cost cutting, quality and productivity most of the executives do not spend their time to develop a corporate view of the future because this exercise demands high intellectual energy and commitment. The difficult questions may challenge their own ability to view the future opportunities but an attempt to find their answers will lead towards organizational benefits.

## Shareholder

A **shareholder** or **stockholder** is an [individual](http://en.wikipedia.org/wiki/Individual) or institution (including a [corporation](http://en.wikipedia.org/wiki/Corporation)) that legally owns any part of a [share](http://en.wikipedia.org/wiki/Share_(finance)) of [stock](http://en.wikipedia.org/wiki/Stock) in a public or private corporation. Shareholders own the stock, but not the corporation itself.

Stockholders are granted special privileges depending on the class of stock. These rights may include:

* The right to sell their shares,
* The right to vote on the directors nominated by the board,
* The right to nominate directors (although this is very difficult in practice because of minority protections) and propose [shareholder resolutions](http://en.wikipedia.org/wiki/Shareholder_resolutions),
* The right to dividends if they are declared,
* The right to purchase new shares issued by the company, and
* The rights to what assets remain after a [liquidation](http://en.wikipedia.org/wiki/Liquidation).

Stockholders or shareholders are considered by some to be a [subset](http://en.wikipedia.org/wiki/Subset) of [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)), which may include anyone who has a direct or indirect interest in the [business entity](http://en.wikipedia.org/wiki/Business_entity). For example, labor, suppliers, customers, the community, etc., are typically considered stakeholders because they contribute value and/or are impacted by the corporation.

|  |  |
| --- | --- |
| **Stakeholders** | **Examples of interests** |
| **Government** | Taxation, [VAT](http://en.wikipedia.org/wiki/VAT), [legislation](http://en.wikipedia.org/wiki/Legislation), low unemployment, truthful reporting. |
| **Employees** | Rates of pay, [job security](http://en.wikipedia.org/wiki/Job_security), compensation, respect, truthful communication. |
| **Customers** | Value, quality, customer care, ethical products. |
| **Suppliers** | Providers of products and services used in the end product for the customer, equitable business opportunities. |
| **Creditors** | Credit score, new contracts, liquidity. |
| **Community** | Jobs, involvement, environmental protection, shares, truthful communication. |
| **Trade Unions** | Quality, Staff protection, jobs. |
| **Owner(s)** | Have interest of the success of his/her business. |

Shareholders in the primary market who buy IPOs provide capital to corporations; however, the vast majorities of shareholders are in the secondary market and provide no capital directly to the corporation.

Therefore, contrary to popular opinion, shareholders of American public corporations are not the (1) owners of the corporation, (2) the claimants of the profit, nor (3) investors, as in the contributors of capital

## Stakeholder (corporate)

A corporate **stakeholder** is a party that can affect or be affected by the actions of the business as a whole. The stakeholder concept was first used in a 1963 internal memorandum at the [Stanford Research Institute](http://en.wikipedia.org/wiki/Stanford_Research_Institute). It defined stakeholders as "those groups without whose support the organization would cease to exist."[[1]](http://en.wikipedia.org/wiki/Stakeholder_(corporate)#cite_note-0) The theory was later developed and championed by [R. Edward Freeman](http://en.wikipedia.org/wiki/R._Edward_Freeman) in the 1980s. Since then it has gained wide acceptance in business practice and in theorizing relating to [strategic management](http://en.wikipedia.org/wiki/Strategic_management), [corporate governance](http://en.wikipedia.org/wiki/Corporate_governance), [business purpose](http://en.wikipedia.org/w/index.php?title=Business_purpose&action=edit&redlink=1) and [corporate social responsibility](http://en.wikipedia.org/wiki/Corporate_social_responsibility) (CSR).

### Types of stakeholders

* People who will be affected by an endeavor and can influence it but who are not directly involved with doing the work.
* In the [private sector](http://en.wikipedia.org/wiki/Private_sector), people who are (or might be) affected by any action taken by an organization or group. Examples are parents, children, customers, owners, employees, associates, partners, contractors, and suppliers, people that are related or located nearby. Any group or individual who can affect or who is affected by achievement of a group's objectives.
* An individual or group with an interest in a group's or an organization's success in delivering intended results and in maintaining the viability of the group or the organization's product and/or service. Stakeholders influence programs, products, and services.
* Any organization, governmental entity, or individual that has a stake in or may be impacted by a given approach to environmental regulation, pollution prevention, energy conservation, etc.
* A participant in a community mobilization effort, representing a particular segment of society. School board members, environmental organizations, elected officials, chamber of commerce representatives, neighborhood advisory council members, and religious leaders are all examples of local stakeholders.

**Market (or Primary) Stakeholders** - usually internal stakeholders, are those that engage in economic transactions with the business. (For example stockholders, customers, suppliers, creditors, and employees)

**Non-Market (or Secondary) Stakeholders** - usually external stakeholders, are those who - although they do not engage in direct economic exchange with the business - are affected by or can affect its actions. (For example the general public, communities, activist groups, business support groups, and the media)

### Company stakeholder mapping

A narrow mapping of a company's stakeholders might identify the following stakeholders:

* [Employees](http://en.wikipedia.org/wiki/Employees)
* [Communities](http://en.wikipedia.org/wiki/Community)
* [Shareholders](http://en.wikipedia.org/wiki/Shareholders)
* [Creditors](http://en.wikipedia.org/wiki/Creditors)
* [Investors](http://en.wikipedia.org/wiki/Investors)
* [Government](http://en.wikipedia.org/wiki/Government)
* [Customers](http://en.wikipedia.org/wiki/Customers)

A broader mapping of a company's stakeholders may also include:

* [Suppliers](http://en.wikipedia.org/wiki/Distributor_(business))
* [Labor unions](http://en.wikipedia.org/wiki/Labor_union)
* Government regulatory agencies
* Government legislative bodies
* Government tax-collecting agencies
* [Industry trade groups](http://en.wikipedia.org/wiki/Industry_trade_group)
* [Professional associations](http://en.wikipedia.org/wiki/Professional_association)
* [NGOs](http://en.wikipedia.org/wiki/NGO) and other [advocacy groups](http://en.wikipedia.org/wiki/Advocacy_group)
* Prospective employees
* Prospective customers
* [Local communities](http://en.wikipedia.org/wiki/Local_communities)
* National communities
* Public at Large (Global Community)
* [Competitors](http://en.wikipedia.org/wiki/Competitors)
* [Schools](http://en.wikipedia.org/wiki/School)
* Future generations
* Analysts and Media
* Alumni (Ex-employees)
* Research centers
* Each Person

### In management

In the last decades of the 20th century, the word "stakeholder" has become more commonly used to mean a person or organization that has a legitimate interest in a project or entity. In discussing the decision-making process for institutions—including large business [corporations](http://en.wikipedia.org/wiki/Corporation), [government agencies](http://en.wikipedia.org/wiki/Government_agency), and [non-profit organizations](http://en.wikipedia.org/wiki/Non-profit_organization) -- the concept has been broadened to include everyone with an interest (or "stake") in what the entity does. This includes not only its vendors, [employees](http://en.wikipedia.org/wiki/Employment), and[customers](http://en.wikipedia.org/wiki/Customer), but even members of a community where its offices or factory may affect the local economy or environment. In this context, "stakeholder" includes not only the directors or trustees on its governing board (who are stakeholders in the traditional sense of the word) but also all persons who "paid in" the figurative stake and the persons to whom it may be "paid out" (in the sense of a "payoff" in [game theory](http://en.wikipedia.org/wiki/Game_theory), meaning the outcome of the transaction).

**Example**

* For example, in the case of a professional landlord undertaking the refurbishment of some rented housing that is occupied while the work is being carried out, key stakeholders would be the residents, neighbors (for whom the work is a nuisance), and the tenancy management team and housing maintenance team employed by the landlord. Other stakeholders would be funders and the design and construction team.

The holders of each separate kind of interest in the entity's affairs are called a *constituency,* so there may be a constituency of [stockholders](http://en.wikipedia.org/wiki/Shareholder), a constituency of adjoining property owners, a constituency of [banks](http://en.wikipedia.org/wiki/Bank) the entity owes money to, and so on. In that usage, "constituent" is a synonym for "stakeholder."

## Stock trader

[](http://en.wikipedia.org/wiki/File:NY_stock_exchange_traders_floor_LC-U9-10548-6.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:NY_stock_exchange_traders_floor_LC-U9-10548-6.jpg)Historical photo of stock traders and [stock brokers](http://en.wikipedia.org/wiki/Stock_brokers) in the [trading floor](http://en.wikipedia.org/wiki/Trading_floor) of the [New York Stock Exchange](http://en.wikipedia.org/wiki/New_York_Stock_Exchange) (1963).

A **stock trader** or a **stock investor** is an [individual](http://en.wikipedia.org/wiki/Individual) or [firm](http://en.wikipedia.org/wiki/Company_(law)) who [buys and sells](http://en.wikipedia.org/wiki/Trade) [stocks](http://en.wikipedia.org/wiki/Stock) in the [financial markets](http://en.wikipedia.org/wiki/Financial_markets). Many stock traders will trade [bonds](http://en.wikipedia.org/wiki/Bond_(finance)) (and possibly other [financial assets](http://en.wikipedia.org/wiki/Financial_asset)) as well. Trading stocks is a risky and complex occupation because the direction of the markets are generally unpredictable and lack transparency, also [financial regulators](http://en.wikipedia.org/wiki/Financial_regulation) are sometimes unable to adequately detect, prevent and remediate irregularities committed by malicious listed companies or other [financial market participants](http://en.wikipedia.org/wiki/Financial_market_participants). In addition, the financial markets are usually subjected to [speculation](http://en.wikipedia.org/wiki/Speculation).

## Stock traders and stock Investors

[](http://en.wikipedia.org/wiki/File:Deutsche-boerse-parkett-ffm001.jpg)

[http://bits.wikimedia.org/static-1.20wmf4/skins/common/images/magnify-clip.png](http://en.wikipedia.org/wiki/File:Deutsche-boerse-parkett-ffm001.jpg)

A view of a computerized [trading floor](http://en.wikipedia.org/wiki/Trading_floor) at the [Frankfurt Stock Exchange](http://en.wikipedia.org/wiki/Frankfurt_Stock_Exchange).

Stock traders are also known as *Stock Speculators*, if trading in that capacity. Individuals or firms trading equity ([stock](http://en.wikipedia.org/wiki/Stock)) on the [stock markets](http://en.wikipedia.org/wiki/Stock_market) as their principal capacity are often called stock [traders](http://en.wikipedia.org/wiki/Trader_(finance)). Stock traders usually try to profit from short-term price volatility with trades lasting anywhere from several seconds to several weeks.

The stock trader is usually a [professional](http://en.wikipedia.org/wiki/Professional). Persons can call themselves full or part-time stock traders/investors while maintaining other professions. When a stock trader/investor has clients, and acts as a money manager or adviser with the intention of adding value to their clients finances, he is also called a [financial advisor](http://en.wikipedia.org/wiki/Financial_advisor) or manager. In this case, the financial manager could be an independent professional or a large bank corporation employee. This may include managers dealing with [investment funds](http://en.wikipedia.org/wiki/Investment_fund), [hedge funds](http://en.wikipedia.org/wiki/Hedge_fund), [mutual funds](http://en.wikipedia.org/wiki/Mutual_funds), and[pension funds](http://en.wikipedia.org/wiki/Pension_fund), or other professionals in [venture capital](http://en.wikipedia.org/wiki/Venture_capital), [equity investment](http://en.wikipedia.org/wiki/Equity_investment), [fund management](http://en.wikipedia.org/wiki/Fund_management), and [wealth management](http://en.wikipedia.org/wiki/Wealth_management). These wealthy and powerful organized investors, are sometimes referred to as [institutional investors](http://en.wikipedia.org/wiki/Institutional_investors). Several different types of stock trading strategies or approaches exist including [day trading](http://en.wikipedia.org/wiki/Day_trading), [trend following](http://en.wikipedia.org/wiki/Trend_following), [market making](http://en.wikipedia.org/wiki/Market_maker), [scalping (trading)](http://en.wikipedia.org/wiki/Scalping_(trading)),[momentum trading](http://en.wikipedia.org/wiki/Momentum_trading), [trading the news](http://en.wikipedia.org/wiki/Trading_the_news), and [arbitrage](http://en.wikipedia.org/wiki/Arbitrage).

On the other hand, stock investors are firms or individuals who purchase stocks with the intention of holding them for an extended period of time, usually several months to years, for passive income objectives such as dividend accumulation. They rely primarily on [fundamental analysis](http://en.wikipedia.org/wiki/Fundamental_analysis) for their investment decisions and fully recognize stock shares as part-ownership in the company. Many investors believe in the [buy and hold](http://en.wikipedia.org/wiki/Buy_and_hold) strategy, which as the name suggests, implies that investors will buy stock ownership in a corporation and hold onto those stocks for the very long term, generally measured in years. This strategy was made popular in the equity bull market of the 1980s and 90s where buy-and-hold investors rode out short-term market declines and continued to hold as the market returned to its previous highs and beyond. However, during the 2001-2003 equity bear market, the buy-and-hold strategy lost some followers as broader market indexes like the [NASDAQ](http://en.wikipedia.org/wiki/NASDAQ) saw their values decline by over 60%.

## Entrepreneurship

**Entrepreneurship** is the act of being an [entrepreneur](http://en.wikipedia.org/wiki/Entrepreneur) or "*one who undertakes*[*innovations*](http://en.wikipedia.org/wiki/Innovations)*, finance and business acumen in an effort to transform innovations into economic goods*". This may result in new [organizations](http://en.wikipedia.org/wiki/Organization) or may be part of revitalizing mature [organizations](http://en.wikipedia.org/wiki/Organization) in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new [businesses](http://en.wikipedia.org/wiki/Business) (referred as [Startup Company](http://en.wikipedia.org/wiki/Startup_Company)); however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities spin-off organizations.[[1]](http://en.wikipedia.org/wiki/Entrepreneurship#cite_note-0)

According to Paul Reynolds, entrepreneurship scholar and creator of the [Global Entrepreneurship Monitor](http://en.wikipedia.org/wiki/Global_Entrepreneurship_Monitor), "by the time they reach their retirement years, half of all working men in the United States probably have a period of self-employment of one or more years; one in four may have engaged in self-employment for six or more years. Participating in a new business creation is a common activity among U.S. workers over the course of their careers." [[2]](http://en.wikipedia.org/wiki/Entrepreneurship#cite_note-1) And in recent years has been documented by scholars such as [David Audretsch](http://en.wikipedia.org/wiki/David_Audretsch) to be a major driver of economic growth in both the United States and Western Europe. "As well, entrepreneurship may be defined as the pursuit of opportunity without regard to resources currently controlled (Stevenson, 1983)"

Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high value" entrepreneurial ventures seek [venture capital](http://en.wikipedia.org/wiki/Venture_capital) or [angel funding](http://en.wikipedia.org/wiki/Angel_investors) ([seed money](http://en.wikipedia.org/wiki/Seed_money)) in order to raise [capital](http://en.wikipedia.org/wiki/Capital_(economics)) to build the business. Angel investors generally seek annualized returns of 20-30% and more, as well as extensive involvement in the business.[[4]](http://en.wikipedia.org/wiki/Entrepreneurship#cite_note-3) Many kinds of organizations now exist to support would-be entrepreneurs including specialized government agencies, [business incubators](http://en.wikipedia.org/wiki/Business_incubator), [science parks](http://en.wikipedia.org/wiki/Science_park), and some [NGOs](http://en.wikipedia.org/wiki/Non-governmental_organization). In more recent times, the term entrepreneurship has been extended to include elements not related necessarily to business formation activity such as conceptualizations of entrepreneurship as a specific [mindset](http://en.wikipedia.org/wiki/Mindset) (see also [entrepreneurial mindset](http://en.wikipedia.org/wiki/Entrepreneurial_mindset)) resulting in entrepreneurial initiatives e.g. in the form of [social entrepreneurship](http://en.wikipedia.org/wiki/Social_entrepreneurship), [political entrepreneurship](http://en.wikipedia.org/wiki/Political_entrepreneur), or [knowledge entrepreneurship](http://en.wikipedia.org/wiki/Knowledge_entrepreneurship) have emerged.

## Characteristics of an entrepreneur

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[Entrepreneurs](http://en.wikipedia.org/wiki/Entrepreneur) have many of the same character traits as [leaders](http://en.wikipedia.org/wiki/Leadership), similar to the early [great man theories](http://en.wikipedia.org/wiki/Great_man_theory) of leadership; however trait-based theories of entrepreneurship are increasingly being called into question. Entrepreneurs are often contrasted with managers and administrators who are said to be more methodical and less prone to risk-taking. Such person-centric models of entrepreneurship have shown to be of questionable validity, not least as many real-life entrepreneurs operate in teams rather than as single individuals. Still, a vast literature studying the entrepreneurial personality found that certain traits seem to be associated with entrepreneurs:

* **David McClelland** - primarily motivated by an overwhelming need for achievement and strong urge to build.
* **Collins and Moore** - tough, pragmatic people driven by needs of independence and achievement. They seldom are willing to submit to authority.
* **Bird** - mercurial, that is, prone to insights, brainstorms, deceptions, ingeniousness and resourcefulness. they are cunning, opportunistic, creative, and unsentimental.
* **Cooper, Woo, & Dunkelberg** - argue that entrepreneurs exhibit extreme optimism in their decision-making processes.
* **Busenitz and Barney** - prone to overconfidence and over generalizations.
* **Cole** - found there are four types of entrepreneur: the innovator, the calculating inventor, the over-optimistic promoter, and the organization builder. These types are not related to the personality but to the type of opportunity the entrepreneur faces.
* **John Howkins** - focused specifically on [creative entrepreneurship](http://en.wikipedia.org/wiki/Creative_entrepreneurship). He found that entrepreneurs in the creative industries needed a specific set of traits including the ability to prioritize ideas over data, to be nomadic and to learn endlessly.

## Concept

It has assumed super importance for accelerating economic growth both in developed and developing countries. It promotes capital formation and creates wealth in country. It is hope and dreams of millions of individuals around the world. It reduces unemployment and poverty and it is a pathway to prosper. Entrepreneurship is the process of exploring the opportunities in the market place and arranging resources required to exploit these opportunities for long term gain. It is the process of planning, organizing, opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as an ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment.

## Promotion

Given entrepreneurship's potential to support economic growth, it is the policy goal of many governments to develop a culture of entrepreneurial thinking. This can be done in a number of ways: by integrating entrepreneurship into education systems, legislating to encourage risk-taking, and national campaigns. An example of the latter is the United Kingdom's Enterprise Week, which launched in 2004 which is one of the essential part of organization.

Outside of the political world, research has been conducted on the presence of entrepreneurial theories in doctoral economics programs. Dan Johansson, fellow at the Ratio Institute in Sweden, finds such content to be sparse. He fears this will dilute doctoral programs and fail to train young economists to analyze problems in a relevant way.

Many of these initiatives have been brought together under the umbrella of [Global Entrepreneurship Week](http://en.wikipedia.org/wiki/Global_Entrepreneurship_Week), a worldwide celebration and promotion of youth entrepreneurship, which started in 2008.

## Entrepreneur

An **entrepreneur** is an enterprising individual who builds capital through risk and/or initiative.[[1]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-0)[[note 1]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-1) The term was originally a [loanword](http://en.wikipedia.org/wiki/Loanword) from [French](http://en.wikipedia.org/wiki/French_language) and was first defined by the Irish-French [economist](http://en.wikipedia.org/wiki/Economist) [Richard Cantillon](http://en.wikipedia.org/wiki/Richard_Cantillon). Entrepreneur in [English](http://en.wikipedia.org/wiki/English_language) is a term applied to a person who is willing to help launch a new venture or enterprise and accept full responsibility for the outcome. [Jean-Baptiste Say](http://en.wikipedia.org/wiki/Jean-Baptiste_Say), a French economist, is believed to have coined the word "entrepreneur" in the 19th century - he defined an entrepreneur as "one who undertakes an enterprise, especially a contractor, acting as intermediatory between capital and labor".

## Leadership attributes

The entrepreneur leads the firm or organization and also demonstrates leadership qualities by selecting managerial staff. Management skill and strong team building abilities are essential leadership attributes for successful entrepreneurs. Scholar [Robert. B. Reich](http://en.wikipedia.org/wiki/Robert_Reich) considers [leadership](http://en.wikipedia.org/wiki/Leadership), management ability, and [team-building](http://en.wikipedia.org/wiki/Team-building) as essential qualities of an entrepreneur. This concept has its origins in the work of Richard Cantillon in his *Essai sur la Nature du Commerce en* (1755) and Jean-Baptiste Say in his *Treatise on Political Economy.*

Entrepreneurs emerge from the population on demand, and become leaders because they perceive opportunities available and are well-positioned to take advantage of them. An entrepreneur may perceive that they are among the few to recognize or be able to solve a problem. [Joseph Schumpeter](http://en.wikipedia.org/wiki/Joseph_Schumpeter) saw the entrepreneur as innovators and popularized the uses of the phrase [creative destruction](http://en.wikipedia.org/wiki/Creative_destruction) to describe his view of the role of entrepreneurs in changing business norms. Creative destruction encompasses changes entrepreneurial activity makes every time a new process, product or company enters the markets.

## Influences, personality traits, and characteristics

The most significant influence on an individual's decision to become an entrepreneur is workplace peers and the social composition of the workplace. The ability of entrepreneurs to innovate relates to innate traits such as extroversion and a proclivity for risk-taking. According to Schumpeter (1934), the capabilities of innovating, introducing new technologies, increasing efficiency and productivity, or generating new products or services, are characteristics of entrepreneurs. Entrepreneurs are catalysts for economic change. Research has found entrepreneurs to be highly creative with a tendency to imagine new solutions by finding opportunities for profit or reward. An Examination of the Impact of Selected Personality Traits on the Innovat.

There is a complexity and lack of cohesion between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur. Most studies, however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent. Although certain entrepreneurial traits are required, entrepreneurial behaviors are dynamic and influenced by environmental factors. Shane and Venkataraman (2000) argue the entrepreneur is solely concerned with opportunity recognition and exploitation; although, the opportunity that is recognized depends on the type of entrepreneur which Ucbasaran et al. (2001) argue there are many different types dependent on their business and personal circumstances. However, it should also be noted that there are approaches that appear highly critical against valorized conceptions of entrepreneurs. For example, there are views that attribute pertinent conceptions to scholarly prejudices, such as unrealistically voluntaristic preconceptions on how a "normal" economic agent ought to behave (Ramoglou, 2011; Gartner, 2001).

Psychological studies show that the psychological propensities for male and [female entrepreneurs](http://en.wikipedia.org/wiki/Female_entrepreneur) are more similar than different. Perceived gender differences may be due more to gender stereotyping. There is a growing body of work that shows that entrepreneurial behavior is dependent on social and economic factors. For example, countries which have healthy and diversified labor markets or stronger safety nets show a more favorable ratio of opportunity-driven rather than necessity-driven women entrepreneurs. Empirical studies suggest that men entrepreneurs possess strong negotiating skills and consensus-forming abilities.

## Types of entrepreneurs

The literature has distinguished among a number of different types of entrepreneurs, for instance:

### Social entrepreneur

A [social entrepreneur](http://en.wikipedia.org/wiki/Social_entrepreneurship) is motivated by a desire to help, improve and transform  [social](http://en.wikipedia.org/wiki/Social), [environmental](http://en.wikipedia.org/wiki/Environment_(biophysical)), [educational](http://en.wikipedia.org/wiki/Educational) and [economic](http://en.wikipedia.org/wiki/Economic) conditions. Key [traits](http://en.wikipedia.org/wiki/Traits) and characteristics of highly effective social entrepreneurs include ambition and a lack of acceptance of the [status quo](http://en.wikipedia.org/wiki/Status_quo) or accepting the world "as it is". The social entrepreneur is driven by an [emotional](http://en.wikipedia.org/wiki/Emotional) desire to address some of the big social and economic conditions in the world, for example, [poverty](http://en.wikipedia.org/wiki/Poverty) and educational deprivation, rather than by the desire for [profit](http://en.wikipedia.org/wiki/Profit_(economics)). Social entrepreneurs seek to develop [innovative](http://en.wikipedia.org/wiki/Innovative) solutions to global problems that can be copied by others to enact change.

Social entrepreneurs act within a market aiming to create social value through the improvement of goods and services offered to the community. Their main aim is to help offer a better service improving the community as a whole and are predominately run as non profit schemes. Zahra et al. (2009: 519) said that “social entrepreneurs make significant and diverse contributions to their communities and societies, adopting business models to offer creative solutions to complex and persistent social problems”.

### Serial entrepreneur

A serial entrepreneur is one who continuously comes up with new ideas and starts new businesses.[[4]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-6) In the media, the serial entrepreneur is represented as possessing a higher propensity for risk, innovation and achievement.[[5]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-7)

### Lifestyle entrepreneur

A lifestyle entrepreneur places passion before [profit](http://en.wikipedia.org/wiki/Profit_(economics)) when launching a business in order to combine personal interests and talent with the ability to earn a living. Many [entrepreneurs](http://en.wikipedia.org/wiki/Entrepreneurs) may be primarily motivated by the intention to make their business profitable in order to sell to [shareholders](http://en.wikipedia.org/wiki/Shareholders).[[*examples needed*](http://en.wikipedia.org/wiki/Wikipedia:Please_clarify)] In contrast, a lifestyle entrepreneur intentionally chooses a [business model](http://en.wikipedia.org/wiki/Business_model) intended to develop and grow their business in order to make a long-term, sustainable and viable living working in a field where they have a particular interest, passion, talent, knowledge or high degree of expertise.[[6]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-8) A lifestyle entrepreneur may decide to become [self-employed](http://en.wikipedia.org/wiki/Self-employed) in order to achieve greater personal freedom, more family time and more time working on projects or business goals that inspire them. A lifestyle entrepreneur may combine a hobby with a profession or they may specifically decide not to expand their business in order to remain in control of their venture. Common goals held by the lifestyle entrepreneur include earning a living doing something that they love, earning a living in a way that facilitates self-employment, achieving a good [work/life balance](http://en.wikipedia.org/wiki/Work/life_balance) and owning a business without shareholders.[[*further explanation needed*](http://en.wikipedia.org/wiki/Wikipedia:Please_clarify)] Many lifestyle entrepreneurs are very dedicated to their business and may work within the [creative industries](http://en.wikipedia.org/wiki/Creative_industries) or [tourism industry](http://en.wikipedia.org/wiki/Tourism_industry),[[7]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-9) where a passion before profit approach to [entrepreneurship](http://en.wikipedia.org/wiki/Entrepreneurship) often prevails. While many entrepreneurs may launch their business with a clear [exit strategy](http://en.wikipedia.org/wiki/Exit_strategy), a lifestyle entrepreneur may deliberately and consciously choose to keep their venture fully within their own control. Lifestyle [entrepreneurship](http://en.wikipedia.org/wiki/Entrepreneurship) is becoming increasing popular as technology provides [small business](http://en.wikipedia.org/wiki/Small_business)owners with the digital platforms needed to reach a large [global market](http://en.wikipedia.org/wiki/Global_market).[[8]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-10) Younger lifestyle entrepreneurs, typically those between 25 and 40 years old, are sometimes referred to as Treps.[[9]](http://en.wikipedia.org/wiki/Entrepreneur#cite_note-11)

### Cooperative entrepreneur

A cooperative entrepreneur doesn't just work alone, but rather collaborates with other cooperative entrepreneurs to develop projects, particularly cooperative projects. Each cooperative entrepreneur might bring different skill sets to the table, but collectively they share in the risk and success of the venture.

### Theory-based Typologies

Recent advances in entrepreneurship research indicate that the differences in entrepreneurs and heterogeneity in their behaviors and actions can be traced back to their the founder's identity. For instance, Fauchart and Gruber (2011, Academy of Management Journal) have recently shown that -based on social identity theory - three main types of entrepreneurs can be distinguished: Darwinians, Communitarians and Missionaries. These types of founders not only diverge in fundamental ways in terms of their self-views and their social motivations in entrepreneurship, but also engage fairly differently in new firm creation.

## Investor

An **investor** is a party that makes an [investment](http://en.wikipedia.org/wiki/Investment) into one or more categories of assets --- [equity](http://en.wikipedia.org/wiki/Stock), [debt](http://en.wikipedia.org/wiki/Bond_(finance)) [securities](http://en.wikipedia.org/wiki/Security_(finance)), [real estate](http://en.wikipedia.org/wiki/Real_estate), [currency](http://en.wikipedia.org/wiki/Currency), [commodity](http://en.wikipedia.org/wiki/Commodity), derivatives such as put and call options, etc. --- with the objective of making a [profit](http://en.wikipedia.org/wiki/Profit_(economics)). This definition makes no distinction between those in the primary and secondary markets. That is, someone who provides a business with capital and someone who buys a stock are both investors. Since those in the secondary market are considered investors, speculators are also investors. According to this definition there is no difference.

## Types of investors

The following classes of investors are not mutually exclusive:

* Individual investors (including [trusts](http://en.wikipedia.org/wiki/Trust_(property)) on behalf of individuals, and umbrella companies formed by two or more to pool investment funds)
* [Collectors](http://en.wikipedia.org/wiki/Collecting) of [art](http://en.wikipedia.org/wiki/Art), [antiques](http://en.wikipedia.org/wiki/Antiques), and other things of value
* [Angel investors](http://en.wikipedia.org/wiki/Angel_investors) (individuals and groups)
* [Sweat equity](http://en.wikipedia.org/wiki/Sweat_equity) investor
* [Venture capital](http://en.wikipedia.org/wiki/Venture_capital) funds, which serve as investment collectives on behalf of individuals, companies, pension plans, insurance reserves, or other funds.
* [Businesses](http://en.wikipedia.org/wiki/Businesses) that make investments, either directly or via a [captive fund](http://en.wikipedia.org/w/index.php?title=Captive_fund&action=edit&redlink=1)
* [Investment trusts](http://en.wikipedia.org/wiki/Investment_trust), including [real estate investment trusts](http://en.wikipedia.org/wiki/Real_estate_investment_trust)
* [Mutual funds](http://en.wikipedia.org/wiki/Mutual_funds), [hedge funds](http://en.wikipedia.org/wiki/Hedge_funds), and other funds, ownership of which may or may not be [publicly traded](http://en.wikipedia.org/wiki/Publicly_traded) (these funds typically pool money raised from their owner-subscribers to invest in securities)
* [Sovereign wealth funds](http://en.wikipedia.org/wiki/Sovereign_wealth_fund)

Also, investors might be classified according to their [styles](http://en.wikipedia.org/wiki/Investor_style). In this respect, an important distinctive [investor psychology](http://en.wikipedia.org/wiki/Investor_psychology) trait is [risk attitude](http://en.wikipedia.org/wiki/Risk_aversion).

## Investor protection

The term “investor protection” defines the entity of efforts and activities to observe, safeguard and enforce the rights and claims of a person in his role as an investor. This includes advise and legal action. The assumption of a need of protection is based on the experience that financial investors are usually structurally inferior to providers of financial services and products due to lack of professional knowledge, information and/or experience. Countries with stronger investor protections tend to grow faster than those with poor investor protections.

## Investment

**Investment** has different meanings in finance and economics. Finance investment is putting money into something with the expectation of gain that upon thorough analysis, has a high degree of security for the principal amount, as well as security of return, within an expected period of time.[[1]](http://en.wikipedia.org/wiki/Investment#cite_note-0) In contrast putting money into something with an expectation of gain without thorough analysis, without security of principal, and without security of return is [speculation](http://en.wikipedia.org/wiki/Speculation) or [gambling](http://en.wikipedia.org/wiki/Gambling). As such, those shareholders who fail to thoroughly analyze their stock purchases, such as owners of mutual funds, could well be called speculators. Indeed, given the efficient market hypothesis, which implies that a thorough analysis of stock data is irrational, all rational shareholders are, by definition, not investors, but speculators.

Investment is related to [saving](http://en.wikipedia.org/wiki/Saving_(money)) or deferring [consumption](http://en.wikipedia.org/wiki/Consumption_(economics)). Investment is involved in many areas of the [economy](http://en.wikipedia.org/wiki/Economy), such as [business management](http://en.wikipedia.org/wiki/Business_management) and [finance](http://en.wikipedia.org/wiki/Finance) whether for households, firms, or governments.

To avoid speculation an investment must be either directly backed by the pledge of sufficient [collateral](http://en.wikipedia.org/wiki/Collateral_(finance)) or insured by sufficient assets pledged by a third party. A thoroughly analyzed loan of money backed by collateral with greater immediate value than the loan amount may be considered an investment. A financial instrument that is insured by the pledge of assets from a third party, such as a deposit in a financial institution insured by a government agency may be considered an investment. Examples of these agencies include, in the United States, the [Securities Investor Protection Corporation](http://en.wikipedia.org/wiki/Securities_Investor_Protection_Corporation), [Federal Deposit Insurance Corporation](http://en.wikipedia.org/wiki/Federal_Deposit_Insurance_Corporation), or [National Credit Union Administration](http://en.wikipedia.org/wiki/National_Credit_Union_Administration), or in Canada, the [Canada Deposit Insurance Corporation](http://en.wikipedia.org/wiki/Canada_Deposit_Insurance_Corporation).

## In economics or macroeconomics

In [economic theory](http://en.wikipedia.org/wiki/Economic_theory) or in [macroeconomics](http://en.wikipedia.org/wiki/Macroeconomics), investment is the amount purchased per unit time of [goods](http://en.wikipedia.org/wiki/Good_(economics_and_accounting)) which are not consumed but are to be used for future production (ie. [capital](http://en.wikipedia.org/wiki/Capital_(economics))). Examples include [railroad](http://en.wikipedia.org/wiki/Railroad) or [factory](http://en.wikipedia.org/wiki/Factory) construction. Investment in[human capital](http://en.wikipedia.org/wiki/Human_capital) includes costs of additional schooling or on-the-job training. [Inventory investment](http://en.wikipedia.org/wiki/Inventory_investment) is the accumulation of goods [inventories](http://en.wikipedia.org/wiki/Inventories); it can be positive or negative, and it can be intended or unintended. In [measures of national income and output](http://en.wikipedia.org/wiki/Measures_of_national_income_and_output), "gross investment" (represented by the [variable](http://en.wikipedia.org/wiki/Variable_(mathematics)) I) is also a component of [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) (GDP), given in the formula GDP = C + I + G + NX, where C is consumption, G is government spending, and NX is net exports. Thus investment is everything that remains of total expenditure after consumption, government spending, and net exports are subtracted (i.e. I = GDP − C − G − NX).

Non-residential fixed investment (such as new factories) and residential investment (new houses) combine with inventory investment to make up I. "Net investment" deducts [depreciation](http://en.wikipedia.org/wiki/Depreciation) from gross investment. Net fixed investment is the value of the net increase in the capital stock per year.

Fixed investment, as expenditure over a period of time ("per year"), is not [capital](http://en.wikipedia.org/wiki/Capital_(economics)). The time dimension of investment makes it a [*flow*](http://en.wikipedia.org/wiki/Stock_and_flow). By contrast, capital is a *stock*— that is, accumulated net investment *to a point* in time (such as December 31).

Investment is often modeled as a function of Income and Interest rates, given by the relation I = f(Y, r). An increase in income encourages higher investment, whereas a higher interest rate may discourage investment as it becomes more costly to borrow money. Even if a firm chooses to use its own funds in an investment, the interest rate represents an [opportunity cost](http://en.wikipedia.org/wiki/Opportunity_cost) of investing those funds rather than lending out that amount of money for interest.

## In finance

In [finance](http://en.wikipedia.org/wiki/Finance), investment is the commitment of funds through collateralized lending, or making a deposit into a secured institution.

In contrast to investment; dollar cost averaging, [market timing](http://en.wikipedia.org/wiki/Market_timing), and diversification are phrases associated with speculation.

Investments are often made indirectly through [intermediaries](http://en.wikipedia.org/wiki/Intermediary), such as [banks](http://en.wikipedia.org/wiki/Bank), [credit unions](http://en.wikipedia.org/wiki/Credit_union), [brokers](http://en.wikipedia.org/wiki/Broker), [lenders](http://en.wikipedia.org/wiki/Lender), and [insurance](http://en.wikipedia.org/wiki/Insurance) companies. Though their legal and procedural details differ, an intermediary generally makes an investment using money from many individuals, each of whom receives a claim on the intermediary.

# X Accounting

**Accountancy** is the process of communicating financial information about a [business entity](http://en.wikipedia.org/wiki/Business_entity) to users such as [shareholders](http://en.wikipedia.org/wiki/Shareholders) and [managers](http://en.wikipedia.org/wiki/Managers).[[1]](http://en.wikipedia.org/wiki/Accountancy#cite_note-0) The [communication](http://en.wikipedia.org/wiki/Communication) is generally in the form of [financial statements](http://en.wikipedia.org/wiki/Financial_statements) that show in money terms the [economic resources](http://en.wikipedia.org/wiki/Factors_of_production) under the control of management; the art lies in selecting the information that is relevant to the user and is reliable.[[2]](http://en.wikipedia.org/wiki/Accountancy#cite_note-1) The [principles](http://en.wikipedia.org/wiki/Principle) of accountancy are applied to business entities in three divisions of practical art, named accounting, [bookkeeping](http://en.wikipedia.org/wiki/Bookkeeping), and [auditing](http://en.wikipedia.org/wiki/Auditing).[[3]](http://en.wikipedia.org/wiki/Accountancy#cite_note-2)

The [American Institute of Certified Public Accountants](http://en.wikipedia.org/wiki/American_Institute_of_Certified_Public_Accountants) (AICPA) defines accountancy as "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof."[[4]](http://en.wikipedia.org/wiki/Accountancy#cite_note-3)

Accounting is thousands of years old; the earliest accounting records, which date back more than 7,000 years, were found in [Mesopotamia](http://en.wikipedia.org/wiki/Mesopotamia) ([Assyrians](http://en.wikipedia.org/wiki/Assyrians)). The people of that time relied on primitive accounting methods to record the growth of crops and herds. Accounting evolved, improving over the years and advancing as business advanced

Early accounts served mainly to assist the memory of the [businessperson](http://en.wikipedia.org/wiki/Businessperson) and the audience for the account was the [proprietor](http://en.wikipedia.org/wiki/Sole_proprietorship) or record keeper alone. Cruder forms of accounting were inadequate for the problems created by a business entity involving multiple [investors](http://en.wikipedia.org/wiki/Investors), so [double-entry bookkeeping](http://en.wikipedia.org/wiki/Double-entry_bookkeeping) first emerged in northern Italy in the 14th century, where trading ventures began to require more [capital](http://en.wikipedia.org/wiki/Financial_capital) than a single individual was able to invest. The development of [joint stock companies](http://en.wikipedia.org/wiki/Joint_stock_companies) created wider audiences for accounts, as investors without firsthand knowledge of their [operations](http://en.wikipedia.org/wiki/Business_operations) relied on accounts to provide the requisite information.[[6]](http://en.wikipedia.org/wiki/Accountancy#cite_note-5) This development resulted in a split of accounting systems for internal (i.e. [management accounting](http://en.wikipedia.org/wiki/Management_accounting)) and external (i.e. [financial accounting](http://en.wikipedia.org/wiki/Financial_accounting)) purposes, and subsequently also in accounting and disclosure regulations and a growing need for independent attestation of external accounts by [auditors](http://en.wikipedia.org/wiki/Auditors).

Today, accounting is called "the language of business" because it is the vehicle for reporting financial information about a business entity to many different groups of people. Accounting that concentrates on reporting to people inside the business entity is called [management accounting](http://en.wikipedia.org/wiki/Management_accounting) and is used to provide information to employees, managers, [owner-managers](http://en.wikipedia.org/wiki/Self-employment) and [auditors](http://en.wikipedia.org/wiki/Auditors). Management accounting is concerned primarily with providing a basis for making management or operating decisions. Accounting that provides information to people outside the business entity is called [financial accounting](http://en.wikipedia.org/wiki/Financial_accounting) and provides information to present and potential shareholders, [creditors](http://en.wikipedia.org/wiki/Creditors) such as [banks](http://en.wikipedia.org/wiki/Bank) or vendors, [financial analysts](http://en.wikipedia.org/wiki/Financial_analysts), [economists](http://en.wikipedia.org/wiki/Economists), and [government agencies](http://en.wikipedia.org/wiki/Government_agencies). Because these users have different needs, the presentation of financial accounts is very structured and subject to many more rules than management accounting. The body of rules that governs financial accounting in a given jurisdiction is called. [Generally Accepted Accounting Principles](http://en.wikipedia.org/wiki/Generally_Accepted_Accounting_Principles), or GAAP. Other rules include [International Financial Reporting Standards](http://en.wikipedia.org/wiki/International_Financial_Reporting_Standards), or IFRS,[[8]](http://en.wikipedia.org/wiki/Accountancy#cite_note-7) or US GAAP.

## Accountant

An **accountant** is a practitioner of [accountancy](http://en.wikipedia.org/wiki/Accountancy) (UK) or accounting (US), which is the measurement, disclosure or provision of assurance about financial information that helps managers, investors, tax authorities and others make decisions about allocating resources.

The [Big Four auditors](http://en.wikipedia.org/wiki/Big_Four_auditors) are the largest employers of accountants worldwide. However, most accountants are employed in commerce, industry and the [public sector](http://en.wikipedia.org/wiki/Public_sector).

## British Commonwealth

In the [Commonwealth of Nations](http://en.wikipedia.org/wiki/Commonwealth_of_Nations), which includes the [United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom), [Canada](http://en.wikipedia.org/wiki/Canada), [Australia](http://en.wikipedia.org/wiki/Australia), [New Zealand](http://en.wikipedia.org/wiki/New_Zealand), [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong) pre 1997 and several dozen other states, commonly recognized accounting qualifications are [Chartered Accountant](http://en.wikipedia.org/wiki/Chartered_Accountant) (CA or ACA), [Chartered Certified Accountant](http://en.wikipedia.org/wiki/Chartered_Certified_Accountant) ([ACCA](http://en.wikipedia.org/wiki/Association_of_Chartered_Certified_Accountants)), Chartered Management Accountant (ACMA) and International Accountant (AAIA). Other qualifications in particular countries include Certified Public Accountant (CPA – Ireland and CPA – Hong Kong), Certified Management Accountant (CMA – Canada), Certified General Accountant (CGA – Canada), Certified Practising Accountant (CPA – Australia) and members of the [Institute of Public Accountants](http://en.wikipedia.org/wiki/Institute_of_Public_Accountants) (Australia), and Certified Public Practising Accountant (CPPA – New Zealand).

The Institute of Chartered Accountants of Scotland (ICAS) received its [Royal Charter](http://en.wikipedia.org/wiki/Royal_Charter) in 1854 and is the world's first [professional body](http://en.wikipedia.org/wiki/Professional_body) of accountants.

### United Kingdom

* A [**Chartered Accountant**](http://en.wikipedia.org/wiki/Chartered_Accountant) must be a member of one of the following:
  + the [Institute of Chartered Accountants in England & Wales](http://en.wikipedia.org/wiki/Institute_of_Chartered_Accountants_in_England_%26_Wales) (ICAEW) (designatory letters ACA or FCA)
  + the [Institute of Chartered Accountants of Scotland](http://en.wikipedia.org/wiki/Institute_of_Chartered_Accountants_of_Scotland) (ICAS) (designatory letters CA)
  + [Chartered Accountants Ireland](http://en.wikipedia.org/wiki/Chartered_Accountants_Ireland) (CAI)
  + a recognised equivalent body from another Commonwealth country (designatory letters being CA (name of country) e.g. CA (Canada))
* A [**Chartered Certified Accountant**](http://en.wikipedia.org/wiki/Chartered_Certified_Accountant) must be a member of the [Association of Chartered Certified Accountants](http://en.wikipedia.org/wiki/Association_of_Chartered_Certified_Accountants) (designatory letters ACCA or FCCA).
* A **Chartered Management Accountant** must be a member of the [Chartered Institute of Management Accountants](http://en.wikipedia.org/wiki/Chartered_Institute_of_Management_Accountants) (designatory letters ACMA or FCMA).
* A **Chartered Public Finance Accountant** must be a member of the [Chartered Institute of Public Finance and Accountancy](http://en.wikipedia.org/wiki/Chartered_Institute_of_Public_Finance_and_Accountancy) (designatory letters CPFA).
* An **International Accountant** is a member of the [Association of International Accountants](http://en.wikipedia.org/wiki/Association_of_International_Accountants) (designatory letters AIAA or FAIA).
* An **Incorporated Financial Accountant** is a member of the [Institute of Financial Accountants](http://en.wikipedia.org/wiki/Institute_of_Financial_Accountants) (designatory letters AFA or FFA).
* An **Associate Professional Accountant** is a member of the Institute of Professional Accountants(designatory letters APA-UK or FPA).[[3]](http://en.wikipedia.org/wiki/Accountant#cite_note-2)[[*importance?*](http://en.wikipedia.org/wiki/Wikipedia:INDISCRIMINATE)]
* A **Certified Public Accountant** may be a member of the [Association of Certified Public Accountants](http://en.wikipedia.org/wiki/Association_of_Certified_Public_Accountants) (designatory letters AICPA or FCPA) or its equivalent in another country, and is usually designated as such after passing the [Uniform Certified Public Accountant Examination](http://en.wikipedia.org/wiki/Uniform_Certified_Public_Accountant_Examination).
* A **Public Accountant** may be a member of the [Institute of Public Accountants](http://en.wikipedia.org/wiki/Institute_of_Public_Accountants) (designatory letters AIPA, MIPA or FIPA).

Excepting the Association of Certified Public Accountants, each of the above bodies admits members only after passing examinations and undergoing a period of relevant work experience. Once admitted, members are expected to comply with ethical guidelines and gain appropriate professional experience.

Chartered, Chartered Certified, Chartered Public Finance, and International Accountants engaging in practice (i.e. selling services to the public rather than acting as an employee) must gain a "practicing certificate" by meeting further requirements such as purchasing adequate insurance and undergoing inspections.

The ICAEW, ICAS, ICAI, ACCA, AIA and CIPFA are six statutory **RQB** Qualification Bodies in the UK. A member of one them may also become a *Registered Auditor* in accordance with the Companies Act, providing they can demonstrate the necessary professional ability in that area and submit to regular inspection. It is illegal for any individual or firm that is not a Registered Auditor to perform a company audit.

All six RQBs are listed under EU mutual recognition directives to practice in 27 EU member states and individually entered into agreement with the Hong Kong Institute of Certified Public Accountants (HKICPA).

Further restrictions apply to accountants who carry out insolvency work.

In addition to the bodies above, technical qualifications are offered by the [Association of Accounting Technicians](http://en.wikipedia.org/wiki/Association_of_Accounting_Technicians), ACCA and AIA, which are respectively called AAT Technician, CAT ([Certified Accounting Technician](http://en.wikipedia.org/wiki/Certified_Accounting_Technician)) and IAT (International Accounting Technician).

### Australia

In Australia, there are three legally recognised professional accounting bodies: the [Institute of Public Accountants](http://en.wikipedia.org/wiki/Institute_of_Public_Accountants) (IPA), [CPA Australia](http://en.wikipedia.org/wiki/CPA_Australia) (CPA) and the [Institute of Chartered Accountants of Australia](http://en.wikipedia.org/wiki/Institute_of_Chartered_Accountants_of_Australia) (ICAA).

### Canada

In Canada, there are four recognized accounting bodies: the [Canadian Institute of Chartered Accountants](http://en.wikipedia.org/wiki/Canadian_Institute_of_Chartered_Accountants) (CA) and the provincial and territorial CA Institutes, the [Society of Management Accountants of Canada](http://en.wikipedia.org/wiki/Society_of_Management_Accountants_of_Canada), also known as the Certified Management Accountants (CMA), [the Certified General Accountants Association of Canada](http://en.wikipedia.org/wiki/Certified_General_Accountant) (CGA), and the Society of Professional Accountants of Canada (RPA). CA and CGA were created by Acts of Parliament in 1902 and 1913 respectively, CMA was established in 1920 and RPA in 1938.

The CA program is the most focused on public accounting and most candidates obtain auditing experience from public accounting firms, although recent changes allow candidates to obtain their experience requirements in industry at companies that have been accredited for training CAs; the CMA program focuses in management accounting, but also provides a general approach to financial accounting and tax; the CGA program takes a general approach allowing candidates to focus in their own financial career choices. The CA and CMA programs require a candidate to obtain a degree as a program entry requirement. The CGA program requires a degree as an exit requirement prior to certification.

Auditing and public accounting are regulated by the provinces. In [British Columbia](http://en.wikipedia.org/wiki/British_Columbia) and [Prince Edward Island](http://en.wikipedia.org/wiki/Prince_Edward_Island), CAs and CGAs have equal status regarding public accounting and auditing; In the rest of [Canada](http://en.wikipedia.org/wiki/Canada), CAs, CMAs, and CGAs are considered equivalents pursuant to provincial and territorial legislation. However, in practice, most public accounting and auditing in Canada is performed by CAs.

As of 2006, the Chartered Certified Accountant ([ACCA](http://en.wikipedia.org/wiki/Association_of_Chartered_Certified_Accountants) or FCCA) is also recognized by the Canadian government as an eligible qualification to audit federal government institutions in Canada. Furthermore, The Canadian branch of [ACCA](http://en.wikipedia.org/wiki/Association_of_Chartered_Certified_Accountants) is pursuing recognition for statutory audit purposes in the province of Ontario under the province's Public Accounting Act of 2004.

### New Zealand

In New Zealand, there are two local accountancy bodies the [New Zealand Institute of Chartered Accountants](http://en.wikipedia.org/wiki/New_Zealand_Institute_of_Chartered_Accountants) (NZICA) and the New Zealand Association of Certified Public Accountants (NZACPA) the operating name of New Zealand Association of Accountants Inc (NZAA).

To audit public companies an individual must be a member of either the NZICA or an otherwise gazetted body. Chartered Certified Accountant (Association of Chartered Certified Accountants or FCCA) qualification has also been gazetted under). An ACCA member can practice as long as they hold an ACCA public practice certificate (with audit qualification) in their country of origin.

### Sri Lanka

In Sri Lanka, a chartered accountant must be a member of the [Institute of Chartered Accountants of Sri Lanka](http://en.wikipedia.org/wiki/Institute_of_Chartered_Accountants_of_Sri_Lanka) (designatory letters ACA or FCA), therefore it is the sole local accountancy body. To audit public companies an individual must be a member of the ICASL.

## Austria

In Austria the accountancy profession is regulated by the Bilanzbuchhaltungsgesetz 2006 (BibuG – Management Accountancy Law).

## Hong Kong

In [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong), the accountancy industry is regulated by the [HKICPA](http://en.wikipedia.org/wiki/HKICPA) under the Professional Accountants Ordinance (Chapter 50, Laws of [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong)). The auditing industry for limited companies is regulated under the Companies Ordinance (Chapter 32, Laws of [Hong Kong](http://en.wikipedia.org/wiki/Hong_Kong)), and other ordinances such as the securities and futures ordinance, the listing rules, etc.

HKICPA terminated all recognition of oversea bodies in 2005 for *accreditation* under professional accountants ordinance. In general, all British RQBs except for CIPFA were re-accredited. Please refer to HKICPA for latest recognition.

**Removal of requirement for a qualified accountant in the Listing Rules of Hong Kong**  
In November 2008, the Stock Exchange of Hong Kong Limited has removed the requirement for a qualified accountant from the listing rules but expanded the Code Provisions in the Code on Corporate Governance Practices regarding internal controls to make specific references to the responsibility of the directors to conduct an annual review of the adequacy of staffing of the financial reporting function and the oversight role of the audit committee.

## Portugal

In Portugal, there are two accountancy qualifications: the *Técnicos Oficiais de Contas* (TOC), responsible for producing accounting and tax information, and the *Revisor Oficial de Contas* (ROC), more related to auditing practices. The TOC certification is exclusively awarded by the professional organization [*Ordem dos Técnicos Oficiais de Contas*](http://en.wikipedia.org/wiki/Ordem_dos_T%C3%A9cnicos_Oficiais_de_Contas) (OTOC), and the certification to become an auditor is awarded by another professional organization, the *Ordem dos Revisores Oficiais de Contas*(OROC).[[4]](http://en.wikipedia.org/wiki/Accountant#cite_note-3) In general, accountants or auditors accredited by OTOC or OROC are individuals with [university](http://en.wikipedia.org/wiki/University) graduation diplomas in business management, economics, mathematics or law who, after further studies, applied for an exam and received the certification to be a TOC or ROC. That certification is only received after a 1-year (TOC) or 3-years (ROC) internship. Any citizen having a [polytechnic](http://en.wikipedia.org/wiki/Polytechnic_(Portugal)) degree as [accounting technician](http://en.wikipedia.org/wiki/Accounting_technician) is also entitled to apply for the exam and certification at the OTOC.

## United States

In the United States, licensed accountants are [Certified Public Accountants](http://en.wikipedia.org/wiki/Certified_Public_Accountant) (CPAs) and in certain states, Public Accountants (PAs). Unlicensed accountants may be [Certified Internal Auditors](http://en.wikipedia.org/wiki/Certified_Internal_Auditor) (CIAs), [Certified Management Accountants](http://en.wikipedia.org/wiki/Certified_Management_Accountant) (CMAs) and [Accredited Business Accountants](http://en.wikipedia.org/wiki/Accredited_Business_Accountant) (ABAs). The difference between these certifications is primarily the legal status and the types of services provided, although individuals may earn more than one certification. Additionally, much accounting work is performed by uncertified individuals, who may be working under the supervision of a certified accountant. As noted above the majority of accountants work in the private sector or may offer their services without the need for certification.

A CPA is licensed by a state to provide auditing services to the public. Many CPA firms also offer accounting, tax, litigation support, and other financial advisory services. The requirements for receiving the CPA license vary from state to state, although the passage of the [Uniform Certified Public Accountant Examination](http://en.wikipedia.org/wiki/Uniform_Certified_Public_Accountant_Examination) is required by all states. This examination is designed and graded by the [American Institute of Certified Public Accountants](http://en.wikipedia.org/wiki/American_Institute_of_Certified_Public_Accountants).

A PA (sometimes referred to as LPA - Licensed Public Accountant) is licensed by the state to practice accountancy to a similar extent as are CPAs, except that PAs are generally not permitted to perform audits or reviews. (Delaware is an exception, in that PAs are permitted to perform audits and reviews.) A PA's ability to practice out of state is very limited due to most states having phased out the PA designation. While most states no longer accept new PA license applicants, approximately 10 states still accept PA applicants for limited practice privileges within the state. As with the CPA, the requirements for receiving the PA license vary from state to state. Most states require a passage of either 2 or 3 (out of 4) sections of the CPA exam or passage of the Comprehensive Examination for Accreditation in Accounting which is administered and graded by the [Accreditation Council for Accountancy and Taxation](http://en.wikipedia.org/w/index.php?title=Accreditation_Council_for_Accountancy_and_Taxation&action=edit&redlink=1) (ACAT).

A certified internal auditor (CIA) is granted a certificate from the Institute of Internal Auditors (IIA), provided that the candidate has passed a four part examination. One of the four parts is waived if the candidate has already passed the CPA Exam. A CIA typically provides services directly to an employer rather than to the public.

A person holding the Certificate in Management Accounting (CMA) is granted the certificate by the Institute of Management Accountants (IMA), provided that the candidate has passed an examination of two parts and has met the practical experience requirement of the IMA. A CMA provides services directly to employers rather than to the public. A CMA can also provide services to the public, but to an extent much lesser than that of a CPA.

An person holding the ABA credential is granted accreditation from the [Accreditation Council for Accountancy and Taxation](http://en.wikipedia.org/w/index.php?title=Accreditation_Council_for_Accountancy_and_Taxation&action=edit&redlink=1) (ACAT), provided that the candidate has passed the eight-hour Comprehensive Examination for Accreditation in Accounting which tests proficiency in financial accounting, reporting, statement preparation, taxation, business consulting services, business law, and ethics. An ABA specializes in the needs of small-to-mid-size businesses and in financial services to individuals and families. In states where use of the word "accountant” is not permitted by non-licensed individuals, the practitioner may use the designation Accredited Business Adviser.

The [United States Department of Labor](http://en.wikipedia.org/wiki/United_States_Department_of_Labor)'s [Bureau of Labor Statistics](http://en.wikipedia.org/wiki/Bureau_of_Labor_Statistics) estimates that there are about one million persons employed as accountants and auditors in the U.S.

[U.S. tax law](http://en.wikipedia.org/wiki/Taxation_in_the_United_States) grants accountants a limited form of [accountant-client privilege](http://en.wikipedia.org/wiki/Accountant-client_privilege).

## Accounting period

**Accounting period** in [bookkeeping](http://en.wikipedia.org/wiki/Bookkeeping) is the period with reference to which accounting books of any entity are prepared.

It is the period for which books are balanced and the financial statements are prepared. Generally, the accounting period consists of 12 months. However the beginning of the accounting period differs according to the jurisdiction. For example one entity may follow the regular calendar year, i.e. January to December as the accounting year, while another entity may follow April to March as the accounting period.

The [International Financial Reporting Standards](http://en.wikipedia.org/wiki/International_Financial_Reporting_Standards) even allows a period of 52 weeks as an accounting period instead of a proper year.[[1]](http://en.wikipedia.org/wiki/Accounting_period#cite_note-0)

In some of the ERP tools there are more than 12 accounting periods in a financial year. They put one accounting period as "Year Open" period where all the carried over balances from last financial year are cleared and one period as "Year Close" where all the transactions for closed for the same financial year. Accounting is an art of recording classifying and summarising the financial positions of the company. It is done by the accountant.

## Bookkeeping

**Bookkeeping** is the recording of financial transactions. Transactions include sales, purchases, income, receipts and payments by an individual or organization. Bookkeeping is usually performed by a bookkeeper. Many individuals mistakenly consider bookkeeping and accounting to be the same thing. This confusion is understandable because the accounting process includes the bookkeeping function, but is just one part of the accounting process.[[1]](http://en.wikipedia.org/wiki/Bookkeeping#cite_note-Weygandt.2C_Kieso.2C_Kimmel_.282003.29-0) The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies. There are some common methods of bookkeeping such as the [single-entry bookkeeping system](http://en.wikipedia.org/wiki/Single-entry_bookkeeping_system) and the [double-entry bookkeeping system](http://en.wikipedia.org/wiki/Double-entry_bookkeeping_system). But while these systems may be seen as "real" bookkeeping, any process that involves the recording of financial transactions is a bookkeeping process.

A bookkeeper (or book-keeper), also known as an accounting clerk or accounting technician, is a person who records the day-to-day financial transactions of an organization. A bookkeeper is usually responsible for writing the "daybooks". The daybooks consist of purchases, sales, receipts, and payments. The bookkeeper is responsible for ensuring all transactions are recorded in the correct day book, suppliers ledger, customer ledger and general ledger.

The bookkeeper brings the books to the [trial balance](http://en.wikipedia.org/wiki/Trial_balance) stage. An accountant may prepare the [income statement](http://en.wikipedia.org/wiki/Income_statement) and [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) using the trial balance and ledgers prepared by the bookkeeper.

## Chart of accounts

A **chart of accounts** (**COA**) is a created list of the [accounts](http://en.wikipedia.org/wiki/Nominal_ledger) used by a [business entity](http://en.wikipedia.org/wiki/Business_entity) to define each class of items for which money or the equivalent is spent or received. It is used to organize the finances of the entity and to segregate expenditures, revenue, assets and liabilities in order to give interested parties a better understanding of the financial health of the entity.

The list can be numerical, alphabetic, or alpha-numeric. The structure and headings of accounts should assist in consistent posting of transactions. Each nominal ledger account is unique to allow its [ledger](http://en.wikipedia.org/wiki/Ledger) to be located. The list is typically arranged in the order of the customary appearance of accounts in the financial statements, balance sheet accounts followed by profit and loss accounts.

## Types of accounts

1. [**Asset**](http://en.wikipedia.org/wiki/Asset)**accounts**: represent the different types of economic resources owned or controlled by business, common examples of Asset accounts are cash, cash in bank, building, inventory, prepaid rent, goodwill, accounts receivable[[1]](http://en.wikipedia.org/wiki/Chart_of_accounts#cite_note-0)
2. [**Liability**](http://en.wikipedia.org/wiki/Liability_(financial_accounting))**accounts**: represent the different types of economic obligations by a business, such as accounts payable, bank loan, bonds payable, accrued interest.[[*citation needed*](http://en.wikipedia.org/wiki/Wikipedia:Citation_needed)]
3. [**Equity**](http://en.wikipedia.org/wiki/Ownership_equity)**accounts**: represent the residual equity of a business (after deducting from Assets all the liabilities) including Retained Earnings and Appropriations.
4. [**Revenue**](http://en.wikipedia.org/wiki/Revenue)**accounts** or [**income**](http://en.wikipedia.org/wiki/Income): represent the company's gross earnings and common examples include Sales, Service revenue and Interest Income.
5. [**Expense**](http://en.wikipedia.org/wiki/Expense)**accounts**: represent the company's expenditures to enable itself to operate. Common examples are electricity and water, rentals, depreciation, doubtful accounts, interest, insurance.
6. [**Contra-accounts**](http://en.wikipedia.org/wiki/Contra-accounts): Some balance sheet items have corresponding contra accounts, with negative balances, that offset them. Examples are [accumulated depreciation](http://en.wikipedia.org/wiki/Accumulated_depreciation) against equipment, and [allowance for bad debts](http://en.wikipedia.org/wiki/Allowance_for_bad_debts) against long-term notes receivable.

## General ledger

The **general ledger** is the main accounting record of a business which uses [double-entry bookkeeping](http://en.wikipedia.org/wiki/Double-entry_bookkeeping). It will usually include [accounts](http://en.wikipedia.org/wiki/Account_(accountancy)) for such items as current [assets](http://en.wikipedia.org/wiki/Assets), fixed assets, liabilities, revenue and expense items, gains and losses. Each General Ledger is divided into debits and credits sections. The left hand side lists debit transactions and the right hand side lists credit transactions. This gives a 'T' shape to each individual general ledger account.

A "T" account showing debits on the left and credits on the right.

|  |  |
| --- | --- |
| **Debits** | **Credits** |
|  |  |
|  |  |
|  |  |
|  |  |

The general ledger is a collection of the group of accounts that supports the value items shown in the major financial statements. It is built up by posting transactions recorded in the sales daybook, purchases daybook, cash book and [general journals](http://en.wikipedia.org/wiki/General_journal) daybook. The general ledger can be supported by one or more [subsidiary ledgers](http://en.wikipedia.org/wiki/Subledger) that provide details for accounts in the general ledger. For instance, an [accounts receivable](http://en.wikipedia.org/wiki/Accounts_receivable) subsidiary ledger would contain a separate account for each credit customer, tracking that customer's balance separately. This subsidiary ledger would then be to talled and compared with its [controlling account](http://en.wikipedia.org/wiki/Controlling_account) (in this case, Accounts Receivable) to ensure accuracy as part of the process of preparing a [trial balance](http://en.wikipedia.org/wiki/Trial_balance).

There are five (seven) basic categories in which all accounts are grouped:

1. [Assets](http://en.wikipedia.org/wiki/Assets)
2. [Liability](http://en.wikipedia.org/wiki/Liability_(financial_accounting))
3. [Owner's equity](http://en.wikipedia.org/wiki/Owner%27s_equity)
4. [Revenue](http://en.wikipedia.org/wiki/Revenue)
5. [Expense](http://en.wikipedia.org/wiki/Expense)
6. ([Gains](http://en.wikipedia.org/wiki/Gain_(finance)))
7. ([Loss](http://en.wikipedia.org/wiki/Loss))

The [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) and the [income statement](http://en.wikipedia.org/wiki/Income_statement) are both derived from the general ledger. Each account in the general ledger consists of one or more pages. The general ledger is where posting to the accounts occurs. Posting is the process of recording amounts as credits, (right side), and amounts as debits, (left side), in the pages of the general ledger. Additional columns to the right hold a running activity total (similar to a checkbook).

The listing of the account names is called the [chart of accounts](http://en.wikipedia.org/wiki/Chart_of_accounts). The extraction of account balances is called a [trial balance](http://en.wikipedia.org/wiki/Trial_balance). The purpose of the trial balance is, at a preliminary stage of the [financial statement](http://en.wikipedia.org/wiki/Financial_statement) preparation process, to ensure the equality of the total [debits](http://en.wikipedia.org/wiki/Debits) and [credits](http://en.wikipedia.org/wiki/Debits_and_credits).

The general ledger should include the date, description and balance or total amount for each account. It is usually divided into at least seven main categories. These categories generally include assets, liabilities, owner's equity, revenue, expenses, gains and losses. The main categories of the general ledger may be further subdivided into [subledgers](http://en.wikipedia.org/wiki/Subledger) to include additional details of such accounts as cash, accounts receivable, accounts payable, etc.

Because each bookkeeping entry debits one account and credits another account in an equal amount, the [double-entry bookkeeping](http://en.wikipedia.org/wiki/Double-entry_bookkeeping) system helps ensure that the general ledger is always in balance, thus maintaining the [accounting equation](http://en.wikipedia.org/wiki/Accounting_equation):

\mbox{Assets} = \mbox{Liabilities} + \mbox{(Shareholders or Owners equity)}

The accounting equation is the mathematical structure of the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet). Although a general ledger appears to be fairly simple, in large or complex organizations or organizations with various subsidiaries, the general ledger can grow to be quite large and take several hours or days to audit or balance.

## Asset

In [financial accounting](http://en.wikipedia.org/wiki/Financial_accountancy), **assets** are economic resources. Anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value is considered an asset. Simply stated, assets represent ownership of value that can be converted into cash (although cash itself is also considered an asset).

The [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) of a firm records the monetary value of the assets owned by the firm. It is money and other valuables belonging to an individual or business. Two major asset classes are tangible assets and intangible assets. Tangible assets contain various subclasses, including current assets and fixed assets.[[3]](http://en.wikipedia.org/wiki/Assets#cite_note-FinanceDict-2) Current assets include inventory, while fixed assets include such items as building sand [equipment](http://en.wikipedia.org/wiki/Equipment).

Intangible assets are nonphysical resources and rights that have a value to the firm because they give the firm some kind of advantage in the market place. Examples of intangible assets are goodwill, copyrights, [trademarks](http://en.wikipedia.org/wiki/Trademarks), [patents](http://en.wikipedia.org/wiki/Patents) and [computer programs](http://en.wikipedia.org/wiki/Computer_program), and financial assets, including such items as [accounts receivable](http://en.wikipedia.org/wiki/Accounts_receivable), [bonds](http://en.wikipedia.org/wiki/Bond_(finance)) and [stocks](http://en.wikipedia.org/wiki/Stock).

## Asset characteristics

Other than software companies and the like - employees are not considered as assets, like machinery is, even though they are capable of producing value.

* The probable present benefit involves a capacity, singly or in combination with other assets, in the case of profit oriented enterprises, to contribute directly or indirectly to future net [cash flows](http://en.wikipedia.org/wiki/Cash_flows), and, in the case of [not-for-profit organizations](http://en.wikipedia.org/wiki/Non-profit_organization), to provide services;
* The entity can control access to the benefit;
* The transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.

In the [financial accounting](http://en.wikipedia.org/wiki/Financial_accounting) sense of the term, it is not necessary to be able to legally enforce the asset's benefit for qualifying a resource as being an asset, provided the entity can control its use by other means.

The [accounting equation](http://en.wikipedia.org/wiki/Accounting_equation) relates assets, liabilities, and [owner's equity](http://en.wikipedia.org/wiki/Ownership_equity):

Assets = Liabilities + Stockholder's Equity (Owner's Equity)

That is, the total value of firms Assets are always equal to the combined value of its "equity" and "[liabilities](http://en.wikipedia.org/wiki/Liability_(accounting))."

The accounting equation is the mathematical structure of the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet).

Assets are listed on the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet). Similarly, in [economics](http://en.wikipedia.org/wiki/Economics) an asset is any form in which [wealth](http://en.wikipedia.org/wiki/Wealth) can be held.

Probably the most accepted accounting definition of asset is the one used by the [International Accounting Standards Board](http://en.wikipedia.org/wiki/International_Accounting_Standards_Board).[[6]](http://en.wikipedia.org/wiki/Assets#cite_note-5) The following is a quotation from the IFRS Framework: "An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise."

Assets are formally controlled and managed within larger organizations via the use of asset tracking tools. These monitor the purchasing, upgrading, servicing, licensing, disposal etc., of both physical and non-physical assets. In a company's [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) certain divisions are required by [generally accepted accounting principles](http://en.wikipedia.org/wiki/Generally_accepted_accounting_principles) (GAAP), which vary from country to country.

### Current assets

Current assets are cash and other assets expected to be converted to cash, gold, or consumed either in a year or in the operating cycle (whichever is longer), without disturbing the normal operations of a business. These assets are continually turned over in the course of a business during normal business activity. There are 5 major items included into current assets:

1. [**Cash and cash equivalents**](http://en.wikipedia.org/wiki/Cash_and_cash_equivalents) — it is the most [liquid asset](http://en.wikipedia.org/wiki/Market_liquidity), which includes [currency](http://en.wikipedia.org/wiki/Currency), [deposit accounts](http://en.wikipedia.org/wiki/Deposit_account), and [negotiable instruments](http://en.wikipedia.org/wiki/Negotiable_instrument) (e.g., money orders, cheque, bank drafts).
2. [**Short-term investments**](http://en.wikipedia.org/wiki/Investment) — include securities bought and held for sale in the near future to generate income on short-term price differences (trading securities).
3. [**Receivables**](http://en.wikipedia.org/wiki/Receivable) — usually reported as net of allowance for noncollectable accounts.
4. [**Inventory**](http://en.wikipedia.org/wiki/Inventory) — trading these assets is a normal business of a company. The inventory value reported on the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) is usually the historical cost or fair market value, whichever is lower. This is known as the "[lower of cost or market](http://en.wikipedia.org/wiki/Lower_of_cost_or_market)" rule.
5. [**Prepaid expenses**](http://en.wikipedia.org/wiki/Prepaid_expense) — these are expenses paid in cash and recorded as assets before they are used or consumed (a common example is insurance). See also [adjusting entries](http://en.wikipedia.org/wiki/Adjusting_entries).

[Marketable securities](http://en.wikipedia.org/wiki/Marketable_securities) Securities that can be converted into cash quickly at a reasonable price

The phrase *net current assets* (also called [*working capital*](http://en.wikipedia.org/wiki/Working_capital)) is often used and refers to the total of current assets less the total of current [liabilities](http://en.wikipedia.org/wiki/Liability_(accounting)).

### Long-term investments

Often referred to simply as "investments". Long-term investments are to be held for many years and are not intended to be disposed of in the near future. This group usually consists of three types of investments:

1. Investments in securities such as bonds, common stock, or long-term notes.
2. Investments in fixed assets not used in operations (e.g., land held for sale).
3. Investments in special funds (e.g. sinking funds or pension funds).

Different forms of [insurance](http://en.wikipedia.org/wiki/Insurance) may also be treated as long term investments.

### Fixed assets

Also referred to as PPE (property, plant, and equipment), these are purchased for continued and long-term use in earning [profit](http://en.wikipedia.org/wiki/Profit_(economics)) in a business. This group includes as an asset [land](http://en.wikipedia.org/wiki/Land_(economics)), [buildings](http://en.wikipedia.org/wiki/Building), [machinery](http://en.wikipedia.org/wiki/Machinery), [furniture](http://en.wikipedia.org/wiki/Furniture), [tools](http://en.wikipedia.org/wiki/Tool), IT equipments like Laptop etc. and certain wasting resources e.g., timberland and [minerals](http://en.wikipedia.org/wiki/Mineral). They are written off against [profits](http://en.wikipedia.org/wiki/Profit_(accounting)) over their anticipated life by charging [depreciation](http://en.wikipedia.org/wiki/Depreciation) expenses (with exception of land assets). Accumulated depreciation is shown in the face of the balance sheet or in the notes.

These are also called [capital assets](http://en.wikipedia.org/wiki/Capital_asset) in [management accounting](http://en.wikipedia.org/wiki/Management_accounting).

### Intangible assets

Intangible assets lack of physical substance and usually are very hard to evaluate. They include [patents](http://en.wikipedia.org/wiki/Patent), [copyrights](http://en.wikipedia.org/wiki/Copyright), [franchises](http://en.wikipedia.org/wiki/Franchising), [goodwill](http://en.wikipedia.org/wiki/Goodwill_(accounting)), [trademarks](http://en.wikipedia.org/wiki/Trademark), [trade names](http://en.wikipedia.org/wiki/Trade_name), etc. These assets are (according to US GAAP) amortized to expense over 5 to 40 years with the exception of goodwill.

[Websites](http://en.wikipedia.org/wiki/Website) are treated differently in different countries and may fall under either tangible or intangible assets.

### Tangible assets

Tangible assets are those that have a physical substance, such as [currencies](http://en.wikipedia.org/wiki/Currency), [buildings](http://en.wikipedia.org/wiki/Buildings), [real estate](http://en.wikipedia.org/wiki/Real_estate), [vehicles](http://en.wikipedia.org/wiki/Vehicles), [inventories](http://en.wikipedia.org/wiki/Inventory), [equipment](http://en.wikipedia.org/wiki/Equipment), and [precious metals](http://en.wikipedia.org/wiki/Precious_metals) (f.i. [gold](http://en.wikipedia.org/wiki/Gold))

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## Liability (financial accounting)

In [financial accounting](http://en.wikipedia.org/wiki/Financial_accounting), a **liability** is defined as an *obligation* of an entity arising from *past* transactions or events, the settlement of which may result in the transfer or use of [assets](http://en.wikipedia.org/wiki/Assets), provision of services or other yielding of economic benefits in the future. A liability is defined by the following characteristics:

* Any type of borrowing from persons or banks for improving a business or personal income that is payable during short or long time;
* A duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services, or other transaction yielding an economic benefit, at a specified or determinable date, on occurrence of a specified event, or on demand;
* A duty or responsibility that obligates the entity to another, leaving it little or no discretion to avoid settlement; and,
* A transaction or event obligating the entity that has already occurred.

Liabilities in financial accounting need not be legally enforceable; but can be based on equitable obligations or constructive obligations. An **equitable obligation** is a duty based on ethical or moral considerations. A **constructive obligation** is an obligation that is implied by a set of circumstances in a particular situation, as opposed to a contractually based obligation.

The [accounting equation](http://en.wikipedia.org/wiki/Accounting_equation) relates [assets](http://en.wikipedia.org/wiki/Asset), liabilities, and [owner's equity](http://en.wikipedia.org/wiki/Ownership_equity):

 Assets = Liabilities + Owner's Equity 

The accounting equation is the mathematical structure of the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet).

The Australian Accounting Research Foundation [[1]](http://www.aarf.asn.au/) defines liabilities as: "future sacrifice of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions and other past events."

Probably the most accepted accounting definition of liability is the one used by the [International Accounting Standards Board](http://en.wikipedia.org/wiki/International_Accounting_Standards_Board) (IASB). The following is a quotation from IFRS Framework:

## Equity (finance)

In [accounting](http://en.wikipedia.org/wiki/Accountancy) and [finance](http://en.wikipedia.org/wiki/Finance), **equity** is the residual claim or interest of the most junior class of investors in [assets](http://en.wikipedia.org/wiki/Asset), after all [liabilities](http://en.wikipedia.org/wiki/Liabilities) are paid. If liability exceeds assets, [negative equity](http://en.wikipedia.org/wiki/Negative_equity) exists. In an accounting context, **Shareholders' equity** (or stockholders' equity, shareholders' funds, shareholders' capital or similar terms) represents the remaining interest in assets of a company, spread among individual [shareholders](http://en.wikipedia.org/wiki/Shareholder) of [common](http://en.wikipedia.org/wiki/Common_stock) or [preferred stock](http://en.wikipedia.org/wiki/Preferred_stock).

At the start of a [business](http://en.wikipedia.org/wiki/Business), [owners](http://en.wikipedia.org/wiki/Owner) put some funding into the business to finance [operations](http://en.wikipedia.org/wiki/Business_operations). This creates a liability on the business in the shape of [capital](http://en.wikipedia.org/wiki/Share_capital) as the business is a separate entity from its owners. Businesses can be considered, for [accounting](http://en.wikipedia.org/wiki/Accounting) purposes, sums of [liabilities](http://en.wikipedia.org/wiki/Liabilities) and [assets](http://en.wikipedia.org/wiki/Asset); this is the [accounting equation](http://en.wikipedia.org/wiki/Accounting_equation). After liabilities have been accounted for the positive remainder is deemed the owner's interest in the business.

This definition is helpful in understanding the [liquidation](http://en.wikipedia.org/wiki/Liquidation) process in case of [bankruptcy](http://en.wikipedia.org/wiki/Bankruptcy). At first, all the secured [creditors](http://en.wikipedia.org/wiki/Creditor) are paid against proceeds from assets. Afterward, a series of creditors, ranked in priority sequence, have the next claim/right on the residual proceeds. Ownership equity is the last or [residual claim](http://en.wikipedia.org/wiki/Residual_claimant) against assets, paid only after all other creditors are paid. In such cases where even creditors could not get enough money to pay their bills, nothing is left over to reimburse owners' equity. Thus owners' equity is reduced to zero. Ownership equity is also known as risk capital or liable capital.

## Equity investments

An equity investment generally refers to the buying and holding of shares of [stock](http://en.wikipedia.org/wiki/Stock) on a [stock market](http://en.wikipedia.org/wiki/Stock_market) by individuals and firms in anticipation of income from [dividends](http://en.wikipedia.org/wiki/Dividend) and [capital gains](http://en.wikipedia.org/wiki/Capital_gain), as the value of the stock rises. Typically equity holders receive voting rights, meaning that they can vote on candidates for the board of directors (shown on a [proxy statement](http://en.wikipedia.org/wiki/Proxy_statement) received by the investor) as well as certain major transactions, and residual rights, meaning that they share the company's profits, as well as recover some of the company's assets in the event that it folds, although they generally have the lowest priority in recovering their investment. It may also refer to the acquisition of equity (ownership) participation in a private (unlisted) company or a [startup company](http://en.wikipedia.org/wiki/Startup_company). When the investment is in infant companies, it is referred to as [venture capital](http://en.wikipedia.org/wiki/Venture_capital) investing and is generally regarded as a higher risk than investment in listed going-concern situations.

The equities held by private individuals are often held as [mutual funds](http://en.wikipedia.org/wiki/Mutual_fund) or as other forms of [collective investment scheme](http://en.wikipedia.org/wiki/Collective_investment_scheme), many of which have quoted prices that are listed in financial newspapers or magazines; the mutual funds are typically managed by prominent fund management firms, such as [Schroders](http://en.wikipedia.org/wiki/Schroders), [Fidelity Investments](http://en.wikipedia.org/wiki/Fidelity_Investments) or [The Vanguard Group](http://en.wikipedia.org/wiki/The_Vanguard_Group). Such holdings allow individual investors to obtain the [diversification](http://en.wikipedia.org/wiki/Diversification_(finance)) of the fund(s) and to obtain the skill of the professional [fund managers](http://en.wikipedia.org/wiki/Fund_manager) in charge of the fund(s). An alternative, which is usually employed by large private investors and pension funds, is to hold shares directly; in the institutional environment many clients who own [portfolios](http://en.wikipedia.org/wiki/Portfolio_(finance)) have what are called [segregated funds](http://en.wikipedia.org/wiki/Segregated_fund), as opposed to or in addition to the pooled mutual fund alternatives.

A calculation can be made to assess whether an equity is over or underpriced, compared with a long-term government bond. This is called the [Yield Gap](http://en.wikipedia.org/wiki/Yield_Gap) or Yield Ratio. It is the ratio of the [dividend](http://en.wikipedia.org/wiki/Dividend) yield of an equity and that of the long-term bond.

## Revenue

In [business](http://en.wikipedia.org/wiki/Business), **revenue** is [income](http://en.wikipedia.org/wiki/Income) that a [company](http://en.wikipedia.org/wiki/Corporation) receives from its normal business activities, usually from the sale of [goods and services](http://en.wikipedia.org/wiki/Product_(business)) to customers. In many countries, such as the United Kingdom, revenue is referred to as **turnover**. Some companies receive revenue from [interest](http://en.wikipedia.org/wiki/Interest), [dividends](http://en.wikipedia.org/wiki/Dividend) or [royalties](http://en.wikipedia.org/wiki/Royalties) paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a [monetary unit](http://en.wikipedia.org/wiki/Monetary_unit), received during a period of time, as in "Last year, Company X had revenue of $42 million." [Profits](http://en.wikipedia.org/wiki/Profit_(accounting)) or [net income](http://en.wikipedia.org/wiki/Net_income) generally imply total revenue minus total [expenses](http://en.wikipedia.org/wiki/Expense) in a given period. In [accounting](http://en.wikipedia.org/wiki/Accountancy), revenue is often referred to as the "top line" due to its position on the [income statement](http://en.wikipedia.org/wiki/Income_statement) at the very top. This is to be contrasted with the "bottom line" which denotes net income.

For [non-profit organizations](http://en.wikipedia.org/wiki/Non-profit_organization), annual revenue may be referred to as **gross receipts**. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's [mission](http://en.wikipedia.org/wiki/Mission_statement), and income from fundraising activities, membership dues, and financial investments such as [stock shares in companies](http://en.wikipedia.org/wiki/Stock).

In general usage, revenue is income received by an organization in the form of [cash](http://en.wikipedia.org/wiki/Cash) or cash equivalents. [Sales revenue](http://en.wikipedia.org/wiki/Sales_(accounting)) or revenues is income received from selling goods or services over a period of time. Tax is income that a government receives from taxpayers.

In more formal usage, revenue is a calculation or estimation of periodic income based on a particular [standard accounting practice](http://en.wikipedia.org/wiki/Standard_accounting_practice) or the rules established by a government or government agency. Two common [accounting methods](http://en.wikipedia.org/wiki/Accounting_methods), cash basis accounting and accrual basis accounting, do not use the same process for measuring revenue. Corporations that offer shares for sale to the public are usually required by law to report revenue based on [generally accepted accounting principles](http://en.wikipedia.org/wiki/Generally_accepted_accounting_principles) or [International Financial Reporting Standards](http://en.wikipedia.org/wiki/International_Financial_Reporting_Standards).

In a [double-entry bookkeeping system](http://en.wikipedia.org/wiki/Double-entry_bookkeeping_system), revenue accounts are [general ledger](http://en.wikipedia.org/wiki/General_ledger) accounts that are summarized periodically under the heading Revenue or Revenues on an income statement. Revenue account names describe the type of revenue, such as "Repair service revenue", "Rent revenue earned" or "Sales".

## Business revenue

Money income from activities that are ordinary for a particular corporation, company, partnership, or sole-proprietorship. For some businesses, such as [manufacturing](http://en.wikipedia.org/wiki/Manufacturing) and/or [grocery](http://en.wikipedia.org/wiki/Grocery), most revenue is from the sale of goods. Service businesses such as [law firms](http://en.wikipedia.org/wiki/Law_firm) and [barber shops](http://en.wikipedia.org/wiki/Barber) receive most of their revenue from rendering services. Lending businesses such as [car rentals](http://en.wikipedia.org/wiki/Car_rental) and [banks](http://en.wikipedia.org/wiki/Bank) receive most of their revenue from fees and interest generated by lending [assets](http://en.wikipedia.org/wiki/Asset) to other organizations or individuals.

Revenues from a business's primary activities are reported as **sales**, **sales revenue** or [**net sales**](http://en.wikipedia.org/wiki/Net_sales). This includes product returns and discounts for early payment of [invoices](http://en.wikipedia.org/wiki/Invoice). Most businesses also have revenue that is incidental to the business's primary activities, such as interest earned on deposits in a [demand account](http://en.wikipedia.org/wiki/Demand_account). This is included in revenue but not included in net sales.[[5]](http://en.wikipedia.org/wiki/Revenue#cite_note-4) Sales revenue does not include [sales tax](http://en.wikipedia.org/wiki/Sales_tax) collected by the business.

**Other revenue** (a.k.a. non-operating revenue) is revenue from peripheral (non-core) operations. For example, a company that manufactures and sells automobiles would record the revenue from the sale of an automobile as "regular" revenue. If that same company also rented a portion of one of its buildings, it would record that revenue as “other revenue” and disclose it separately on its income statement to show that it is from something other than its core operations.

### Financial statement analysis

Revenue is a crucial part of financial statement analysis. A company’s performance is measured to the extent to which its asset inflows (revenues) compare with its asset outflows ([expenses](http://en.wikipedia.org/wiki/Expenses)). [Net Income](http://en.wikipedia.org/wiki/Net_Income) is the result of this equation, but revenue typically enjoys equal attention during a standard [earnings call](http://en.wikipedia.org/wiki/Earnings_call). If a company displays solid “top-line growth,” analysts could view the period’s performance as positive even if earnings growth or “bottom-line growth” is stagnant. Conversely, high net income growth would be tainted if a company failed to produce significant revenue growth. Consistent revenue growth, as well as net income growth, is considered essential for a company's publicly traded [stock](http://en.wikipedia.org/wiki/Stock) to be attractive to investors.

Revenue is used as an indication of earnings quality. There are several [financial ratios](http://en.wikipedia.org/wiki/Financial_ratios) attached to it, the most important being [gross margin](http://en.wikipedia.org/wiki/Gross_margin) and [profit margin](http://en.wikipedia.org/wiki/Profit_margin). Also, companies use revenue to determine [bad debt expense](http://en.wikipedia.org/wiki/Bad_debt) using the income statement method.

Price / Sales is sometimes used as a substitute for a [Price to earnings ratio](http://en.wikipedia.org/wiki/P/E_ratio) when earnings are negative and the P/E is meaningless. Though a company may have negative earnings, it almost always has positive revenue.

[Gross Margin](http://en.wikipedia.org/wiki/Gross_Margin) is a calculation of revenue less [cost of goods sold](http://en.wikipedia.org/wiki/Cost_of_goods_sold), and is used to determine how well sales cover direct variable costs relating to the production of goods.

Net income/sales, or [profit margin](http://en.wikipedia.org/wiki/Profit_margin), is calculated by investors to determine how efficiently a company turns revenues into profits....

## Government revenue

Government revenue includes all amounts of money (i.e. taxes and/or fees) received from sources outside the government entity. Large governments usually have an [agency](http://en.wikipedia.org/wiki/Government_agency) or [department](http://en.wikipedia.org/wiki/Departmentalization) responsible for collecting government revenue from companies and individuals.[[6]](http://en.wikipedia.org/wiki/Revenue#cite_note-5)

Government revenue may also include [reserve bank](http://en.wikipedia.org/wiki/Reserve_bank) [currency](http://en.wikipedia.org/wiki/Currency) which is printed. This is recorded as an advance to the retail bank together with a corresponding currency in circulation expense entry. The income derives from the Official Cash rate payable by the retail banks for instruments such as 90 day bills. There is a question as to whether using generic business based accounting standards can give a fair and accurate picture of government accounts in that with a monetary policy statement to the reserve bank directing a positive inflation rate. The expense provision for the return of currency to the reserve bank is largely symbolic in that to totally cancel the currency in circulation provision all currency would have to be returned to the reserve bank and cancelled.

## Expense

In common usage, an **expense** or **expenditure** is an outflow of [money](http://en.wikipedia.org/wiki/Money) to another person or group to pay for an item or service, or for a category of costs. For a [tenant](http://en.wikipedia.org/wiki/Leasehold_estate), [rent](http://en.wikipedia.org/wiki/Renting) is an expense. For students or parents, [tuition](http://en.wikipedia.org/wiki/Tuition) is an expense. Buying food, clothing, furniture or an automobile is often referred to as an expense. An expense is a cost that is "paid" or "remitted", usually in exchange for something of value. Something that seems to cost a great deal is "expensive". Something that seems to cost little is "inexpensive". "Expenses of the table" are expenses of [dining](http://en.wikipedia.org/wiki/Dining), refreshments, a [feast](http://en.wikipedia.org/wiki/Banquet), etc.

In [accounting](http://en.wikipedia.org/wiki/Accounting), **expense** has a very specific meaning. It is an outflow of cash or other valuable assets from a person or company to another person or company. This outflow of cash is generally one side of a trade for products or services that have equal or better current or future value to the buyer than to the seller. Technically, an expense is an event in which an [asset](http://en.wikipedia.org/wiki/Asset) is used up or a [liability](http://en.wikipedia.org/wiki/Liability_(accounting)) is incurred. In terms of the [accounting equation](http://en.wikipedia.org/wiki/Accounting_equation), expenses reduce owners' [equity](http://en.wikipedia.org/wiki/Equity_(economics)). The [International Accounting Standards Board](http://en.wikipedia.org/wiki/International_Accounting_Standards_Board) defines expenses as

*...decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.*[[1]](http://en.wikipedia.org/wiki/Expense#cite_note-0)

## Bookkeeping for expenses

In [double-entry bookkeeping](http://en.wikipedia.org/wiki/Double-entry_bookkeeping), expenses are recorded as a [debit](http://en.wikipedia.org/wiki/Debit) to an expense account (an [income statement](http://en.wikipedia.org/wiki/Income_statement) account) and a [credit](http://en.wikipedia.org/wiki/Credit) to either an asset account or a liability account, which are [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) accounts. An expense decreases assets or increases liabilities. Typical business expenses include salaries, utilities, depreciation of capital assets, and interest expense for loans. The purchase of a capital asset such as a building or equipment is not an expense.

## [[edit](http://en.wikipedia.org/w/index.php?title=Expense&action=edit&section=2)]Cash flow

In a [cash flow statement](http://en.wikipedia.org/wiki/Cash_flow_statement), expenditures are divided into operating, investing, and financing expenditures.

* [Operational expense](http://en.wikipedia.org/wiki/Operating_expense) – salary for employees
* [Capital expenditure](http://en.wikipedia.org/wiki/Capital_expenditure) – buying equipment
* [Financing expense](http://en.wikipedia.org/wiki/Corporate_finance) – [interest expense](http://en.wikipedia.org/wiki/Interest_expense) for [loans](http://en.wikipedia.org/wiki/Loans) and [bonds](http://en.wikipedia.org/wiki/Bond_(finance))

An important issue in [accounting](http://en.wikipedia.org/wiki/Accounting) is whether a particular expenditure is classified as an expense, which is reported immediately on the business's [income statement](http://en.wikipedia.org/wiki/Income_statement); or whether it is classified as a [capital expenditure](http://en.wikipedia.org/wiki/Capital_expenditure) or an expenditure subject to [depreciation](http://en.wikipedia.org/wiki/Depreciation), which is not an expense. These latter types of expenditures are reported as expenses when they are depreciated by businesses that use [accrual-basis accounting](http://en.wikipedia.org/wiki/Cash-basis_versus_accrual-basis_accounting), which is most large businesses and all [C corporations](http://en.wikipedia.org/wiki/C_corporation).

The most common interpretation of whether an expense is of capital or income variety depends upon its term. Viewing an expense as a purchase helps alleviate this distinction. If, soon after the "purchase", that which was expensed holds no value then it is usually identified as an expense. If it retains value soon and long after the purchase, it will be viewed as capital with life that should be [amortized](http://en.wikipedia.org/wiki/Amortized)/[depreciated](http://en.wikipedia.org/wiki/Depreciation) and retained on the [Balance Sheet](http://en.wikipedia.org/wiki/Balance_Sheet).

## Gain (finance)

In [finance](http://en.wikipedia.org/wiki/Finance), **gain** is a [profit](http://en.wikipedia.org/wiki/Profit_(accounting)) or an increase in value of an [investment](http://en.wikipedia.org/wiki/Investment) such as a [stock](http://en.wikipedia.org/wiki/Stock) or [bond](http://en.wikipedia.org/wiki/Bond_(finance)). Gain is calculated by [fair market value](http://en.wikipedia.org/wiki/Fair_market_value) or the proceeds from the sale of the investment minus the sum of the purchase price and all [costs](http://en.wikipedia.org/wiki/Cost) associated with it. If the investment is not converted into cash or another asset, the gain is then called an unrealized gain.

In accounting, a gain is a change in the value of an [asset](http://en.wikipedia.org/wiki/Asset) (increase) or [liability](http://en.wikipedia.org/wiki/Liability_(accounting)) (decrease) resulting from something other than the earnings process. While gains are often associated with investments, derivatives and other financial instruments, they can also result from something as simple as selling a production asset (such as a machine) for more than its net book (accounting) value.

As such, gains are similar to, but nonetheless significantly different from, revenues. The difference lies in the existence of intent to earn a profit. Thus, revenues result from the intentional producing and delivering of goods and/or rendering services, while gains can result from incidental occurrences and often-random events (such as the change in a stock’s market price, a gift or a chance discovery).

Finally, the term “realized” also has a slightly different meaning when used in the accounting context (the accounting context; that income/revenue should only be counted when realized, if unrealized the item should be counted as an asset [income receivable] on the Balance Sheet). Under US GAAP ([US Generally Accepted Accounting Principles](http://en.wikipedia.org/wiki/US_Generally_Accepted_Accounting_Principles)) or IFRS ([International Financial Reporting Standards](http://en.wikipedia.org/wiki/International_Financial_Reporting_Standards)), a gain is “realized” when the market value of some asset or liability (such as a financial instrument) changes, even if the reporting entity continues to hold that asset or liability.

## Cash flow statement

In [financial accounting](http://en.wikipedia.org/wiki/Financial_accounting), a **cash flow statement**, also known as ***statement of cash flows*** or ***funds flow statement***,[[1]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-helfert-a-0) is a [financial statement](http://en.wikipedia.org/wiki/Financial_statements) that shows how changes in [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) accounts and income affect [cash and cash equivalents](http://en.wikipedia.org/wiki/Cash_and_cash_equivalents), and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the business. The statement captures both the current operating results and the accompanying changes in the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet).[[1]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-helfert-a-0) As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7), is the [International Accounting Standard](http://en.wikipedia.org/wiki/International_Accounting_Standard) that deals with cash flow statements.

People and groups interested in cash flow statements include:

* Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
* Potential [lenders](http://en.wikipedia.org/wiki/Lender) or [creditors](http://en.wikipedia.org/wiki/Creditor), who want a clear picture of a company's ability to repay
* Potential [investors](http://en.wikipedia.org/wiki/Investor), who need to judge whether the company is financially sound
* Potential employees or contractors, who need to know whether the company will be able to afford compensation
* [Shareholders](http://en.wikipedia.org/wiki/Shareholder) of the business.

**Purpose**

The cash flow statement was previously known as the **flow of Cash statement**.[[2]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-1) The cash flow statement reflects a firm's liquidity.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the [accrual basis accounting](http://en.wikipedia.org/wiki/Accounting_methods#Accrual_basis) used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation or write-offs on bad debts or credit losses to name a few.[[3]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-2) The cash flow statement is a [cash basis](http://en.wikipedia.org/wiki/Accounting_methods#Cash_basis) report on three types of financial activities: operating activities, investing activities, and financing activities. Non-cash activities are usually reported in footnotes.

The cash flow statement is intended to[[4]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-3)

1. provide information on a firm's [liquidity](http://en.wikipedia.org/wiki/Market_liquidity) and [solvency](http://en.wikipedia.org/wiki/Solvency) and its ability to change [cash flows](http://en.wikipedia.org/wiki/Cash_flow) in future circumstances
2. provide additional information for evaluating changes in assets, liabilities and equity
3. improve the comparability of different firms' operating performance by eliminating the effects of different [accounting methods](http://en.wikipedia.org/wiki/Accounting_methods)
4. indicate the amount, timing and probability of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.[[5]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-Epstein.2C_p._91-4)

**Cash flow activities**

The cash flow statement is partitioned into three segments, namely: 1) cash flow resulting from operating activities; 2) cash flow resulting from investing activities; and 3) cash flow resulting from financing activities.

The money coming into the business is called cash inflow, and [money](http://en.wikipedia.org/wiki/Money) going out from the business is called cash outflow.

### Operating activities

Operating activities include the [production](http://en.wikipedia.org/wiki/Production,_costs,_and_pricing), [sales](http://en.wikipedia.org/wiki/Sales) and delivery of the company's product as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising, and shipping the product.

Under IAS 7, operating cash flows include:[[11]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-Epstein.2C_p._93-10)

* Receipts from the sale of goods or services
* Receipts for the sale of loans, debt or equity instruments in a trading portfolio
* Interest received on loans
* Payments to suppliers for goods and services.
* Payments to employees or on behalf of employees
* Interest payments (alternatively, this can be reported under financing activities in IAS 7, and US GAAP)
* buying Merchandise

Items which are added back to [or subtracted from, as appropriate] the net income figure (which is found on the Income Statement) to arrive at cash flows from operations generally include:

* [Depreciation](http://en.wikipedia.org/wiki/Depreciation) (loss of tangible asset value over time)
* [Deferred tax](http://en.wikipedia.org/wiki/Deferred_tax)
* [Amortization](http://en.wikipedia.org/wiki/Amortization_(business)#Accounting) (loss of intangible asset value over time)
* Any gains or losses associated with the sale of a non-current asset, because associated cash flows do not belong in the operating section.(unrealized gains/losses are also added back from the income statement)

### Investing activities

Examples of investing activities are

* Purchase or Sale of an asset (assets can be land, building, equipment, marketable securities, etc.)
* Loans made to suppliers or received from customers
* Payments related to mergers and acquisitions.

### Financing activities

Financing activities include the inflow of cash from [investors](http://en.wikipedia.org/wiki/Investor) such as [banks](http://en.wikipedia.org/wiki/Bank) and [shareholders](http://en.wikipedia.org/wiki/Shareholder), as well as the outflow of cash to shareholders as [dividends](http://en.wikipedia.org/wiki/Dividend) as the company generates income. Other activities which impact the long-term liabilities and equity of the company are also listed in the financing activities section of the cash flow statement.

Under IAS 7,

* Proceeds from issuing short-term or long-term debt
* Payments of dividends
* Payments for repurchase of company shares
* Repayment of debt principal, including capital leases
* For non-profit organizations, receipts of donor-restricted cash that is limited to long-term purposes

Items under the financing activities section include:

* [Dividends](http://en.wikipedia.org/wiki/Dividends) paid
* Sale or repurchase of the company's [stock](http://en.wikipedia.org/wiki/Stock)
* Net [borrowings](http://en.wikipedia.org/wiki/Debt)
* Payment of dividend tax

**Disclosure of non-cash activities**

Under IAS 7, non-cash investing and financing activities are disclosed in footnotes to the financial statements. Under US General Accepted Accounting Principles (GAAP), non-cash activities may be disclosed in a footnote or within the cash flow statement itself. Non-cash financing activities may include[[11]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-Epstein.2C_p._93-10)

* Leasing to purchase an asset
* Converting debt to equity
* Exchanging non-cash assets or liabilities for other non-cash assets or liabilities
* Issuing shares in exchange for assets

**Preparation methods**

The direct method of preparing a cash flow statement results in a more easily understood report.[[12]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-11) The indirect method is almost universally used, because FAS 95 requires a supplementary report similar to the indirect method if a company chooses to use the direct method.

[[edit](http://en.wikipedia.org/w/index.php?title=Cash_flow_statement&action=edit&section=9)]Direct method

The direct method for creating a cash flow statement reports major classes of gross cash receipts and payments. Under IAS 7, dividends received may be reported under operating activities or under investing activities. If taxes paid are directly linked to operating activities, they are reported under operating activities; if the taxes are directly linked to investing activities or financing activities, they are reported under investing or financing activities.

**Sample cash flow statement using the direct method**

|  |  |  |
| --- | --- | --- |
| **Cash flows from (used in) operating activities** | | |
| **Cash receipts from customers** | **9,500** |  |
| **Cash paid to suppliers and employees** | **(2,000)** |  |
| **Cash generated from operations (sum)** | **7,500** |  |
| **Interest paid** | **(2,000)** |  |
| **Income taxes paid** | **(3,000)** |  |
| **Net cash flows from operating activities** |  | **2,500** |
| **Cash flows from (used in) investing activities** | | |
| **Proceeds from the sale of equipment** | **7,500** |  |
| **Dividends received** | **3,000** |  |
| **Net cash flows from investing activities** |  | **10,500** |
| **Cash flows from (used in) financing activities** | | |
| **Dividends paid** | **(2,500)** |  |
| **Net cash flows used in financing activities** |  | **(2,500)** |
| **.** | | |
| **Net increase in cash and cash equivalents** |  | **10,500** |
| **Cash and cash equivalents, beginning of year** |  | **1,000** |
| **Cash and cash equivalents, end of year** |  | **$11,500** |

### Indirect method

The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts from all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (or loss) into cash flow by using a series of additions and deductions.[[14]](http://en.wikipedia.org/wiki/Cash_flow_statement#cite_note-13)

#### Rules (operating activities)

The following rules can be followed to calculate Cash Flows from Operating Activities when given only a two year comparative balance sheet and the Net Income figure. Cash Flows from Operating Activities can be found by adjusting Net Income relative to the change in beginning and ending balances of Current Assets, Current Liabilities, and sometimes Long Term Assets. When comparing the change in long term assets over a year, the accountant must be certain that these changes were caused entirely by their devaluation rather than purchases or sales (i.e. they must be operating items not providing or using cash) or if they are no operating items

* Decrease in non-cash current assets are added to net income
* Increase in non-cash current asset are subtracted from net income
* Increase in current liabilities are added to net income
* Decrease in current liabilities are subtracted from net income
* Expenses with no cash outflows are added back to net income (depreciation and/or amortization expense are the only operating items that have no effect on cash flows in the period)
* Revenues with no cash inflows are subtracted from net income
* Non operating losses are added back to net income
* Non operating gains are subtracted from net income

The intricacies of this procedure might be seen as,

Net\ Cash\ Flows\ from\ Operating\ Activities\ = Net\ Income\ + Rule\ Items\,

For example, consider a company that has a net income of $100 this year, and its A/R increased by $25 since the beginning of the year. If the balances of all other current assets, long term assets and current liabilities did not change over the year, the cash flows could be determined by the rules above as $100 – $25 = Cash Flows from Operating Activities = $75. The logic is that, if the company made $100 that year (net income), and they are using the accrual accounting system (not cash based) then any income they generated that year which has not yet been paid for in cash should be subtracted from the net income figure in order to find cash flows from operating activities. And the increases in A/R meant that $25 of sales occurred on credit and have not yet been paid for in cash.

In the case of finding Cash Flows when there is a change in a fixed asset account, say the Buildings and Equipment account decreases, the change is added back to Net Income. The reasoning behind this is that because Net Income is calculated by, Net Income = Rev - Cogs - Depreciation Exp - Other Exp then the Net Income figure will be decreased by the building's depreciation that year. This depreciation is not associated with an exchange of cash, therefore the depreciation is added back into net income to remove the non-cash activity.

#### Rules (financing activities)

Finding the Cash Flows from Financing Activities is much more intuitive and needs little explanation. Generally, the things to account for are financing activities:

* Include as outflows, reductions of long term notes payable (as would represent the cash repayment of debt on the balance sheet)
* Or as inflows, the issuance of new notes payable
* Include as outflows, all dividends paid by the entity to outside parties
* Or as inflows, dividend payments received from outside parties
* Include as outflows, the purchase of notes stocks or bonds
* Or as inflows, the receipt of payments on such financing vehicles.

In the case of more advanced accounting situations, such as when dealing with subsidiaries, the accountant must

* Exclude intra-company dividend payments.
* Exclude intra-company bond interest.

A traditional equation for this might look something like,

**Example: cash flow of XYZ**:

|  |  |  |  |
| --- | --- | --- | --- |
| **XYZ co. Ltd. Cash Flow Statement  (all numbers in millions of Rs.)** | | | |
| ***Period ending*** | ***03/31/2010*** | ***03/31/2009*** | ***03/31/2008*** |
| **Net income** | **21,538** | **24,589** | **17,046** |
| **Operating activities, cash flows provided by or used in:** | | | |
| **Depreciation and amortization** | **2,790** | **2,592** | **2,747** |
| **Adjustments to net income** | **4,617** | **621** | **2,910** |
| **Decrease (increase) in accounts receivable** | **12,503** | **17,236** | **--** |
| **Increase (decrease) in liabilities (A/P, taxes payable)** | **131,622** | **19,822** | **37,856** |
| **Decrease (increase) in inventories** | **--** | **--** | **--** |
| **Increase (decrease) in other operating activities** | **(173,057)** | **(33,061)** | **(62,963)** |
| **Net cash flow from operating activities** | **13** | **31,799** | **(2,404)** |
| **Investing activities, cash flows provided by or used in:** | | | |
| **Capital expenditures** | **(4,035)** | **(3,724)** | **(3,011)** |
| **Investments** | **(201,777)** | **(71,710)** | **(75,649)** |
| **Other cash flows from investing activities** | **1,606** | **17,009** | **(571)** |
| **Net cash flows from investing activities** | **(204,206)** | **(58,425)** | **(79,231)** |
| **Financing activities, cash flows provided by or used in:** | | | |
| **Dividends paid** | **(9,826)** | **(9,188)** | **(8,375)** |
| **Sale (repurchase) of stock** | **(5,327)** | **(12,090)** | **133** |
| **Increase (decrease) in debt** | **101,122** | **26,651** | **21,204** |
| **Other cash flows from financing activities** | **120,461** | **27,910** | **70,349** |
| **Net cash flows from financing activities** | **206,430** | **33,283** | **83,311** |
| **Effect of exchange rate changes** | **645** | **(1,840)** | **731** |
| **Net increase (decrease) in cash and cash equivalents** | **2,882** | **4,817** | **2,407** |

## Income statement

**Income statement** (also referred to as ***profit and loss statement (P&L)***, ***revenue statement***, ***statement of financial performance***, ***earnings statement***, ***operating statement*** or ***statement of operations***)[[1]](http://en.wikipedia.org/wiki/Income_statement#cite_note-helfert-a-0) is a company's [financial statement](http://en.wikipedia.org/wiki/Financial_statement) that indicates how the [revenue](http://en.wikipedia.org/wiki/Revenue) (money received from the sale of products and services before expenses are taken out, also known as the "top line") is transformed into the [net income](http://en.wikipedia.org/wiki/Net_income) (the result after all revenues and expenses have been accounted for, also known as Net Profit or the "bottom line"). It displays the revenues recognized for a specific period, and the [cost](http://en.wikipedia.org/wiki/Cost) and [expenses](http://en.wikipedia.org/wiki/Expense) charged against these revenues, including [write-offs](http://en.wikipedia.org/wiki/Write-off) (e.g., [depreciation](http://en.wikipedia.org/wiki/Depreciation) and [amortization](http://en.wikipedia.org/wiki/Amortization) of various [assets](http://en.wikipedia.org/wiki/Asset)) and [taxes](http://en.wikipedia.org/wiki/Tax).[[1]](http://en.wikipedia.org/wiki/Income_statement#cite_note-helfert-a-0) The purpose of the income statement is to show [managers](http://en.wikipedia.org/wiki/Management) and [investors](http://en.wikipedia.org/wiki/Investor) whether the company made or lost money during the period being reported.

The important thing to remember about an income statement is that it represents a period of time. This contrasts with the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet), which represents a single moment in time.

[Charitable organizations](http://en.wikipedia.org/wiki/Charitable_organizations) that are required to publish financial statements do not produce an income statement. Instead, they produce a similar statement that reflects funding sources compared against program expenses, administrative costs, and other operating commitments. This statement is commonly referred to as the [statement of activities](http://www.1800net.com/nprc/fasb117.html#2). Revenues and expenses are further categorized in the statement of activities by the donor restrictions on the funds received and expended.

The income statement can be prepared in one of two methods.[[2]](http://en.wikipedia.org/wiki/Income_statement#cite_note-1) The Single Step income statement takes a simpler approach, totaling revenues and subtracting expenses to find the bottom line. The more complex Multi-Step income statement (as the name implies) takes several steps to find the bottom line, starting with the [gross profit](http://en.wikipedia.org/wiki/Gross_profit). It then calculates [operating expenses](http://en.wikipedia.org/wiki/Operating_expenses) and, when deducted from the gross profit, yields income from operations. Adding to income from operations is the difference of other revenues and other expenses. When combined with income from operations, this yields income before taxes. The final step is to deduct taxes, which finally produces the net income for the period measured.

## Usefulness and limitations of income statement

Income statements should help investors and creditors determine the past financial performance of the enterprise, predict future performance, and assess the capability of generating future cash flows through report of the income and expenses.

However, information of an income statement has several limitations:

* Items that might be relevant but cannot be reliably measured are not reported (*e.g.* brand recognition and loyalty).
* Some numbers depend on accounting methods used (*e.g.* using [FIFO or LIFO accounting](http://en.wikipedia.org/wiki/FIFO_and_LIFO_accounting) to measure [inventory](http://en.wikipedia.org/wiki/Inventory#Accounting_for_inventory) level).
* Some numbers depend on judgments and estimates (*e.g.* [depreciation](http://en.wikipedia.org/wiki/Depreciation) expense depends on estimated useful life and salvage value).

- INCOME STATEMENT GREENHARBOR LLC -

For the year ended DECEMBER 31 2010

€ €

Debit Credit

Revenues

GROSS REVENUES (including INTEREST income) 296,397

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Expenses:

ADVERTISING 6,300

BANK & CREDIT CARD FEES 144

BOOKKEEPING 2,350

SUBCONTRACTORS 88,000

ENTERTAINMENT 5,550

INSURANCE 750

LEGAL & PROFESSIONAL SERVICES 1,575

LICENSES 632

PRINTING, POSTAGE & STATIONERY 320

RENT 13,000

MATERIALS 74,400

TELEPHONE 1,000

UTILITIES 1,491

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TOTAL EXPENSES (195,512)

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NET INCOME 100,885

Guidelines for statements of comprehensive income and income statements of business entities are formulated by the [International Accounting Standards Board](http://en.wikipedia.org/wiki/International_Accounting_Standards_Board) and numerous country-specific organizations, for example the [FASB](http://en.wikipedia.org/wiki/FASB) in the U.S.

Names and usage of different accounts in the income statement depend on the type of organization, industry practices and the requirements of different jurisdictions.

If applicable to the business, summary values for the following items should be included in the income statement:

### Operating section

* [**Revenue**](http://en.wikipedia.org/wiki/Revenue) - Cash inflows or other enhancements of assets of an entity during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major operations. It is usually presented as sales minus sales discounts, returns, and allowances. Every time a business sells a product or performs a service, it obtains revenue. This often is referred to as gross revenue or sales revenue. [[4]](http://en.wikipedia.org/wiki/Income_statement#cite_note-3)
* [**Expenses**](http://en.wikipedia.org/wiki/Expenses) - Cash outflows or other using-up of assets or incurrence of liabilities during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major operations.
  + [**Cost of Goods Sold**](http://en.wikipedia.org/wiki/Cost_of_Goods_Sold)**(COGS) /**[**Cost of Sales**](http://en.wikipedia.org/wiki/Cost_of_Sales) - represents the direct costs attributable to goods produced and sold by a business (manufacturing or merchandizing). It includes *material costs*, *direct labour*, and *overhead costs* (as in [absorption costing](http://en.wikipedia.org/wiki/Absorption_costing)), and excludes operating costs (period costs) such as selling, administrative, advertising or R&D, etc.
  + **Selling, General and Administrative expenses (**[**SG&A**](http://en.wikipedia.org/wiki/SG%26A)**or SGA)** - consist of the combined payroll costs. SGA is usually understood as a major portion of non-production related costs, in contrast to production costs such as direct labour.
    - **Selling expenses** - represent expenses needed to sell products (e.g. *salaries of sales people, commissions and travel expenses, advertising, freight, shipping, depreciation of sales store buildings and equipment*, etc.).
    - **General and Administrative (G&A) expenses** - represent expenses to manage the business (*salaries of officers / executives, legal and professional fees, utilities, insurance, depreciation of office building and equipment, office rents, office supplies*, etc.).
  + [**Depreciation**](http://en.wikipedia.org/wiki/Depreciation)**/**[**Amortization**](http://en.wikipedia.org/wiki/Amortization) - the charge with respect to [fixed assets](http://en.wikipedia.org/wiki/Fixed_assets) / [intangible assets](http://en.wikipedia.org/wiki/Intangible_assets) that have been capitalized on the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) for a specific (accounting) period. It is a systematic and rational allocation of cost rather than the recognition of market value decrement.
  + **Research & Development (R&D) expenses** - represent expenses included in research and development.

*Expenses* recognised in the income statement should be analyzed either by **nature** (raw materials, transport costs, staffing costs, depreciation, employee benefit etc.) or by **function** (cost of sales, selling, administrative, etc.). (IAS 1.99) If an entity categorizes by function, then additional information on the nature of expenses, at least, – depreciation, amortization and employee benefits expense – must be disclosed. (IAS 1.104) The major exclusive of costs of goods sold, are classified as operating expenses. These represent the resources expended, except for inventory purchases, in generating the revenue for the period. Expenses often are divided into two broad sub classifications selling expenses and administrative expenses.

### Non-operating section

* **Other revenues or gains** - revenues and gains from other than primary business activities (e.g. *rent*, *income from patents*). It also includes unusual gains that are either unusual or infrequent, but not both (e.g. *gain from sale of securities* or *gain from disposal of fixed assets*)
* **Other expenses or losses** - expenses or losses not related to primary business operations, (e.g. *foreign exchange loss*).
* **Finance costs** - costs of borrowing from various creditors (e.g. [*interest expenses*](http://en.wikipedia.org/wiki/Interest_expense), *bank charges*).
* **Income tax expense** - sum of the amount of [tax](http://en.wikipedia.org/wiki/Tax) payable to tax authorities in the current reporting period (current tax liabilities/ tax payable) and the amount of [deferred tax](http://en.wikipedia.org/wiki/Deferred_tax) liabilities (or assets).

### Irregular items

They are reported separately because this way users can better predict future cash flows - irregular items most likely will not recur. These are reported ***net of taxes***.

* [**Discontinued operations**](http://en.wikipedia.org/wiki/Discontinued_operation) is the most common type of irregular items. Shifting business location(s), stopping production temporarily, or changes due to technological improvement do **not** qualify as discontinued operations. Discontinued operations *must* be shown separately.

**Cumulative effect of changes in accounting policies (principles)** is the difference between the book value of the affected assets (or liabilities) under the old policy (principle) and what the book value would have been if the new principle had been applied in the prior periods. For example, valuation of inventories using [LIFO](http://en.wikipedia.org/wiki/FIFO_and_LIFO_accounting) instead of [weighted average method](http://en.wikipedia.org/wiki/Average_costing). The changes should be applied **retrospectively** and shown as adjustments to the *beginning* balance of affected components in [Equity](http://en.wikipedia.org/wiki/Equity_(finance)). All comparative financial statements should be restated. (IAS 8)

However, ***changes in estimates*** (e.g. estimated useful life of a fixed asset) only requires **prospective** changes. (IAS 8)

**No** items may be presented in the income statement as **extraordinary items**. (IAS 1.87) *Extraordinary items* are both unusual (abnormal) and infrequent, for example, unexpected natural disaster, expropriation, prohibitions under new regulations. [Note: natural disaster might not qualify depending on location (e.g. frost damage would not qualify in Canada but would in the tropics).]

Additional items may be needed to fairly present the entity's results of operations. (IAS 1.85)

### Disclosures

Certain items must be disclosed separately in the notes (or the [statement of comprehensive income](http://en.wikipedia.org/wiki/Statement_of_comprehensive_income)), if material, including:[[3]](http://en.wikipedia.org/wiki/Income_statement#cite_note-iasplus.com-2) (IAS 1.98)

* Write-downs of [inventories](http://en.wikipedia.org/wiki/Inventories) to net realizable value or of [property, plant and equipment](http://en.wikipedia.org/wiki/Property,_plant_and_equipment) to recoverable amount, as well as *reversals* of such write-downs
* Restructurings of the activities of an entity and *reversals* of any provisions for the costs of restructuring
* Disposals of items of property, plant and equipment
* Disposals of investments
* [Discontinued operations](http://en.wikipedia.org/wiki/Discontinued_operations)
* Litigation settlements
* Other reversals of provisions

### Earnings per share

Because of its importance, [earnings per share](http://en.wikipedia.org/wiki/Earnings_per_share) (EPS) are required to be disclosed on the face of the income statement. A company which reports any of the irregular items must also report EPS for these items either in the statement or in the notes.

\text{Earnings per share} = \frac{\text{Net income} - \text{Preferred stock dividends}}{\text{Weighted average of common stock shares outstanding}}

There are two forms of EPS reported:

* **Basic**: in this case "weighted average of shares outstanding" includes only actual stocks outstanding.
* **Diluted**: in this case "weighted average of shares outstanding" is calculated as if all stock options, warrants, convertible bonds, and other securities that could be transformed into shares *are* transformed. This increases the number of shares and so EPS decreases. **Diluted EPS is considered to be a more reliable way to measure EPS.**

## Sample income statement

The following income statement is a very brief example prepared in accordance with [IFRS](http://en.wikipedia.org/wiki/IFRS). It does not show all possible kinds of items appeared a firm, but it shows the most usual ones. Please note the difference between [IFRS](http://en.wikipedia.org/wiki/IFRS) and [US GAAP](http://en.wikipedia.org/wiki/US_GAAP) when interpreting the following sample income statements.

Fitness Equipment Limited

INCOME STATEMENTS

(in millions)

Year Ended March 31, 2009 2008 2007

----------------------------------------------------------------------------------

Revenue $ 14,580.2 $ 11,900.4 $ 8,290.3

Cost of sales (6,740.2) (5,650.1) (4,524.2)

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*Gross profit 7,840.0 6,250.3 3,766.1*

------------- ------------ ------------

SGA expenses (3,624.6) (3,296.3) (3,034.0)

------------- ------------ ------------

***Operating profit $ 4,215.4 $ 2,954.0 $ 732.1***

------------- ------------ ------------

Gains from disposal of fixed assets 46.3 - -

Interest expense (119.7) (124.1) (142.8)

------------- ------------ ------------

Profit *before* tax 4,142.0 2,829.9 589.3

------------- ------------ ------------

Income tax expense (1,656.8) (1,132.0) (235.7)

------------- ------------ ------------

***Profit (or loss) for the year $ 2,485.2 $ 1,697.9 $ 353.6***

DEXTERITY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)

Year Ended December 31, 2009 2008 2007

----------------------------------------------------------------------------------------------

[Revenue](http://en.wikipedia.org/wiki/Revenue) $ 36,525.9 $ 29,827.6 $ 21,186.8

[Cost of sales](http://en.wikipedia.org/wiki/Cost_of_sales) (18,545.8) (15,858.8) (11,745.5)

----------- ----------- ------------

[*Gross profit*](http://en.wikipedia.org/wiki/Gross_profit) *17,980.1 13,968.8 9,441.3*

----------- ----------- ------------

Operating expenses:

[Selling, general and administrative expenses](http://en.wikipedia.org/wiki/SG%26A) (4,142.1) (3,732.3) (3,498.6)

[Depreciation](http://en.wikipedia.org/wiki/Depreciation) (602.4) (584.5) (562.3)

[Amortization](http://en.wikipedia.org/wiki/Amortization) (209.9) (141.9) (111.8)

[Impairment loss](http://en.wikipedia.org/wiki/Impaired_asset) (17,997.1) — —

----------- ----------- ------------

Total operating expenses (22,951.5) (4,458.7) (4,172.7)

----------- ----------- ------------

***Operating profit (or loss) $ (4,971.4) $ 9,510.1 $ 5,268.6***

----------- ----------- ------------

Interest income 25.3 11.7 12.0

Interest expense (718.9) (742.9) (799.1)

----------- ----------- ------------

Profit (or loss) from continuing operations

*before* tax, share of profit (or loss) from

Associates and non-controlling interest $ (5,665.0) $ 8,778.9 $ 4,481.5

----------- ----------- ------------

Income [tax](http://en.wikipedia.org/wiki/Tax) expense (1,678.6) (3,510.5) (1,789.9)

Profit (or loss) from [associates](http://en.wikipedia.org/wiki/Associate_company), *net of tax* (20.8) 0.1 (37.3)

Profit (or loss) from [non-controlling interest](http://en.wikipedia.org/wiki/Non-controlling_interest),

*net of tax* (5.1) (4.7) (3.3)

----------- ----------- ------------

**Profit (or loss) from continuing operations $ (7,348.7) $ 5,263.8 $ 2,651.0**

----------- ----------- ------------

Profit (or loss) from [discontinued operations](http://en.wikipedia.org/wiki/Discontinued_operations),

*net of tax* (1,090.3) (802.4) 164.6

----------- ----------- ------------

***Profit (or loss) for the year $ (8,439.0) $ 4,461.4 $ 2,815.6***

## Bottom line

"Bottom line" is the [net income](http://en.wikipedia.org/wiki/Net_income) that is calculated after subtracting the expenses from revenue. Since this forms the last line of the income statement, it is informally called "bottom line." It is important to investors as it represents the profit for the year attributable to the shareholders.

After revision to IAS 1 in 2003, the Standard is now using **profit or loss for the year** rather than *net profit or loss* or *net income* as the descriptive term for the bottom line of the income statement.

## Requirements of IFRS

On 6 September 2007, the [International Accounting Standards Board](http://en.wikipedia.org/wiki/International_Accounting_Standards_Board) issued a revised *IAS 1: Presentation of Financial Statements*, which is effective for annual periods beginning on or after 1 January 2009.

A business entity adopting IFRS must include:

* a [**Statement of Comprehensive Income**](http://en.wikipedia.org/wiki/Statement_of_Comprehensive_Income) or
* *two* separate statements comprising:

1. an ***Income Statement*** displaying components of profit or loss **and**
2. a *Statement of Comprehensive Income* that *begins* with profit or loss (bottom line of the income statement) and displays the items of [other comprehensive income](http://en.wikipedia.org/wiki/Other_comprehensive_income) for the reporting period. (IAS1.81)

All non-owner changes in equity (i.e. *comprehensive income* ) shall be presented in either in the statement of comprehensive income (or in a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the [statement of changes in equity](http://en.wikipedia.org/wiki/Statement_of_changes_in_equity).

[*Comprehensive income*](http://en.wikipedia.org/wiki/Comprehensive_income) for a period includes profit or loss (net income) for that period and [other comprehensive income](http://en.wikipedia.org/wiki/Other_comprehensive_income) recognised in that period.

All items of income and expense recognised in a period must be included in profit or loss unless a Standard or an Interpretation requires otherwise. (IAS 1.88) Some IFRSs require or permit that some components to be excluded from profit or loss and instead to be included in other comprehensive income. (IAS 1.89)

### Items and disclosures

The **statement of comprehensive income** should include: (IAS 1.82)

1. [Revenue](http://en.wikipedia.org/wiki/Revenue)
2. Finance costs (including [interest expenses](http://en.wikipedia.org/wiki/Interest_expense))
3. Share of the profit or loss of [associates](http://en.wikipedia.org/wiki/Associate_company) and [joint ventures](http://en.wikipedia.org/wiki/Joint_ventures) accounted for using the [equity method](http://en.wikipedia.org/wiki/Equity_method)
4. [Tax](http://en.wikipedia.org/wiki/Tax) expense
5. A *single* amount comprising the total of (1) the *post-tax* profit or loss of [*discontinued operations*](http://en.wikipedia.org/wiki/Discontinued_operations) and (2) the *post-tax* gain or loss recognised on the disposal of the assets or disposal group(s) constituting the *discontinued operation*
6. Profit or loss
7. Each component of [other comprehensive income](http://en.wikipedia.org/wiki/Other_comprehensive_income) classified by nature
8. Share of the other comprehensive income of associates and joint ventures accounted for using the equity method
9. [Total comprehensive income](http://en.wikipedia.org/wiki/Total_comprehensive_income)

The following items must also be disclosed in the statement of comprehensive income as allocations for the period: (IAS 1.83)

* Profit or loss for the period attributable to [non-controlling interests](http://en.wikipedia.org/wiki/Non-controlling_interest) and owners of the [parent](http://en.wikipedia.org/wiki/Parent_company)
* Total comprehensive income attributable to non-controlling interests and owners of the parent

*No* items may be presented in the statement of comprehensive income (or in the income statement, if separately presented) or in the notes as *extraordinary items*.

## Balance sheet

In [financial accounting](http://en.wikipedia.org/wiki/Financial_accounting), a balance sheet or statement of financial position is a summary of the financial balances of a [sole proprietorship](http://en.wikipedia.org/wiki/Sole_proprietorship), a [business partnership](http://en.wikipedia.org/wiki/Partnership), a [corporation](http://en.wikipedia.org/wiki/Corporation) or other business organization, such as an [LLC](http://en.wikipedia.org/wiki/Limited_liability_company) or an [LLP](http://en.wikipedia.org/wiki/LLP). [Assets](http://en.wikipedia.org/wiki/Asset), [liabilities](http://en.wikipedia.org/wiki/Liability_(financial_accounting)) and [ownership equity](http://en.wikipedia.org/wiki/Ownership_equity) are listed as of a specific date, such as the end of its [financial year](http://en.wikipedia.org/wiki/Financial_year). A balance sheet is often described as a "snapshot of a company's financial condition".[[1]](http://en.wikipedia.org/wiki/Balance_Sheet#cite_note-0) Of the four basic [financial statements](http://en.wikipedia.org/wiki/Financial_statements), the balance sheet is the only statement which applies to a single point in time of a business' calendar year.

A standard company balance sheet has three parts: assets, liabilities and ownership equity. The main categories of assets are usually listed first, and typically in order of [liquidity](http://en.wikipedia.org/wiki/Liquidity).[[2]](http://en.wikipedia.org/wiki/Balance_Sheet#cite_note-1) Assets are followed by the liabilities. The difference between the assets and the liabilities is known as equity or the [net assets](http://en.wikipedia.org/wiki/Net_assets) or the [net worth](http://en.wikipedia.org/wiki/Net_worth) or capital of the company and according to the [accounting equation](http://en.wikipedia.org/wiki/Accounting_equation), net worth must equal assets minus liabilities.

Another way to look at the same equation is that assets equal liabilities plus owner's equity. Looking at the equation in this way shows how assets were financed: either by borrowing money (liability) or by using the owner's money (owner's equity). Balance sheets are usually presented with assets in one section and liabilities and net worth in the other section with the two sections "balancing."

A business operating entirely in cash can measure its profits by withdrawing the entire bank balance at the end of the period, plus any cash in hand. However, many businesses are not paid immediately; they build up inventories of goods and they acquire buildings and equipment. In other words: businesses have [assets](http://en.wikipedia.org/wiki/Asset) and so they cannot, even if they want to, immediately turn these into cash at the end of each period. Often, these businesses owe money to suppliers and to tax authorities, and the proprietors do not withdraw all their original capital and profits at the end of each period. In other words businesses also have [liabilities](http://en.wikipedia.org/wiki/Liability_(financial_accounting)).

Types

A balance sheet summarizes an organization or individual's assets, equity and liabilities at a specific point in time. Individuals and small businesses tend to have simple balance sheets. Larger businesses tend to have more complex balance sheets, and these are presented in the organization's [annual report](http://en.wikipedia.org/wiki/Annual_report). Large businesses also may prepare balance sheets for segments of their businesses.[[6]](http://en.wikipedia.org/wiki/Balance_Sheet#cite_note-5) A balance sheet is often presented alongside one for a different point in time (typically the previous year) for comparison.

Personal balance sheet

A personal balance sheet lists current assets such as cash in [checking accounts](http://en.wikipedia.org/wiki/Checking_account) and [savings accounts](http://en.wikipedia.org/wiki/Savings_account), long-term assets such as [common stock](http://en.wikipedia.org/wiki/Common_stock) and [real estate](http://en.wikipedia.org/wiki/Real_estate), current liabilities such as [loan](http://en.wikipedia.org/wiki/Loan) debt and [mortgage](http://en.wikipedia.org/wiki/Mortgage_loan) debt due, or overdue, long-term liabilities such as [mortgage](http://en.wikipedia.org/wiki/Mortgage) and other loan debt. Securities and real estate values are listed at [market value](http://en.wikipedia.org/wiki/Market_value) rather than at [historical cost](http://en.wikipedia.org/wiki/Historical_cost) or [cost basis](http://en.wikipedia.org/wiki/Cost_basis). Personal [net worth](http://en.wikipedia.org/wiki/Net_worth) is the difference between an individual's total assets and total liabilities.

US small business balance sheet

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sample Small Business Balance Sheet | | | | |
| Assets | | Liabilities and Owners' Equity | | |
| Cash | $6,600 | Liabilities | | |
| Accounts Receivable | $6,200 | Notes Payable | $30,000 |  |
| Tools and equipment | $25,000 | Accounts Payable | | |
|  | | *Total liabilities* | | $30,000 |
|  | | Owners' equity | | |
|  | | Capital Stock | $7,000 |  |
|  | | Retained Earnings | $800 |  |
|  | | *Total owners' equity* | | $7,800 |
| *Total* | $37,800 | *Total* | | $37,800 |
|  |  |  | |  |

A small business balance sheet lists current assets such as cash, [accounts receivable](http://en.wikipedia.org/wiki/Accounts_receivable), and [inventory](http://en.wikipedia.org/wiki/Inventory), fixed assets such as land, buildings, and equipment, [intangible assets](http://en.wikipedia.org/wiki/Intangible_asset) such as [patents](http://en.wikipedia.org/wiki/Patent), and liabilities such as [accounts payable](http://en.wikipedia.org/wiki/Accounts_payable), accrued expenses, and long-term debt. [Contingent liabilities](http://en.wikipedia.org/wiki/Contingent_liabilities) such as [warranties](http://en.wikipedia.org/wiki/Warranties) are noted in the footnotes to the balance sheet. The small business's equity is the difference between total assets and total liabilities.

## Public Business Entities balance sheet structure

Guidelines for balance sheets of public business entities are given by the [International Accounting Standards Committee](http://en.wikipedia.org/wiki/International_Accounting_Standards_Committee) (now [International Accounting Standards Board](http://en.wikipedia.org/wiki/International_Accounting_Standards_Board)) and numerous country-specific organizations/companies.

Balance sheet account names and usage depend on the organization's country and the type of organization. Government organizations do not generally follow standards established for individuals or businesses.

If applicable to the business, summary values for the following items should be included in the balance sheet:Assets are all the things the business owns; this will include property, tools, cars, etc.

### Assets

[Current assets](http://en.wikipedia.org/wiki/Current_asset)

1. [Cash and cash equivalents](http://en.wikipedia.org/wiki/Cash_and_cash_equivalents)
2. [Accounts receivable](http://en.wikipedia.org/wiki/Accounts_receivable)
3. [Inventories](http://en.wikipedia.org/wiki/Inventory)
4. [Prepaid expenses](http://en.wikipedia.org/wiki/Prepaid_expenses) for future services that will be used within a year

Non-current assets ([Fixed assets](http://en.wikipedia.org/wiki/Fixed_asset))

1. [Property, plant and equipment](http://en.wikipedia.org/wiki/Property,_plant_and_equipment)
2. Investment property, such as [real estate](http://en.wikipedia.org/wiki/Real_estate) held for investment purposes
3. [Intangible assets](http://en.wikipedia.org/wiki/Intangible_asset)
4. Financial assets (excluding investments accounted for using the equity method, [accounts receivables](http://en.wikipedia.org/wiki/Accounts_receivables), and cash and [cash equivalents](http://en.wikipedia.org/wiki/Cash_equivalents))
5. [Investments](http://en.wikipedia.org/wiki/Investments#Finance) accounted for using the [equity method](http://en.wikipedia.org/wiki/Equity_method)
6. Biological assets, which are living plants or animals. Bearer biological assets are plants or animals which bear agricultural produce for harvest, such as apple trees grown to produce apples and sheep raised to produce wool

### Liabilities

1. [Accounts payable](http://en.wikipedia.org/wiki/Accounts_payable)
2. [Provisions](http://en.wikipedia.org/wiki/Provision_(accounting)) for warranties or court decisions
3. Financial liabilities (excluding provisions and accounts payable), such as [promissory notes](http://en.wikipedia.org/wiki/Promissory_note) and [corporate bonds](http://en.wikipedia.org/wiki/Corporate_bond)
4. Liabilities and assets for current [tax](http://en.wikipedia.org/wiki/Tax)
5. [Deferred tax](http://en.wikipedia.org/wiki/Deferred_tax) liabilities and deferred tax assets
6. Unearned revenue for services paid for by customers but not yet provided

### Equity

The net assets shown by the balance sheet equals the third part of the balance sheet, which is known as the [shareholders' equity](http://en.wikipedia.org/wiki/Shareholders%27_equity). It comprises:

1. Issued capital and [reserves](http://en.wikipedia.org/wiki/Reserve_(accounting)) attributable to equity holders of the [parent company](http://en.wikipedia.org/wiki/Parent_company) (controlling interest)
2. [Non-controlling interest](http://en.wikipedia.org/wiki/Minority_interest) in equity

Formally, shareholders' equity is part of the company's liabilities: they are funds "owing" to shareholders (after payment of all other liabilities); usually, however, "liabilities" is used in the more restrictive sense of liabilities excluding shareholders' equity. The balance of assets and liabilities (including shareholders' equity) is not a coincidence. Records of the values of each account in the balance sheet are maintained using a system of accounting known as [double-entry bookkeeping](http://en.wikipedia.org/wiki/Double-entry_bookkeeping). In this sense, shareholders' equity by construction must equal assets minus liabilities, and are a residual.

Regarding the items in equity section, the following disclosures are required:

1. Numbers of [shares](http://en.wikipedia.org/wiki/Share_(finance)) authorized, issued and fully paid, and issued but not fully paid
2. [Par value](http://en.wikipedia.org/wiki/Par_value) of shares
3. Reconciliation of shares outstanding at the beginning and the end of the period
4. Description of rights, preferences, and restrictions of shares
5. [Treasury shares](http://en.wikipedia.org/wiki/Treasury_share), including shares held by [subsidiaries](http://en.wikipedia.org/wiki/Subsidiary) and associates
6. Shares reserved for issuance under [options](http://en.wikipedia.org/wiki/Option_(finance)) and [contracts](http://en.wikipedia.org/wiki/Contract)
7. A description of the nature and purpose of each reserve within owners' equity

## Sample balance sheet

The following balance sheet is a very brief example prepared in accordance with [IFRS](http://en.wikipedia.org/wiki/IFRS). It does not show all possible kinds of assets, liabilities and equity, but it shows the most usual ones. Because it shows [goodwill](http://en.wikipedia.org/wiki/Goodwill_(accounting)), it could be a [consolidated](http://en.wikipedia.org/wiki/Consolidated_financial_statement) balance sheet. Monetary values are not shown, summary (total) rows are missing as well.

**Balance Sheet of XYZ, Ltd.**

**As of 31 December 2009**

**ASSETS**

[**Current Assets**](http://en.wikipedia.org/wiki/Current_Asset)

[Cash and Cash Equivalents](http://en.wikipedia.org/wiki/Cash_and_Cash_Equivalents)

[Accounts Receivable](http://en.wikipedia.org/wiki/Accounts_Receivable) (Debtors)

*Less: Allowances for Doubtful Accounts*

[Inventories](http://en.wikipedia.org/wiki/Inventory)

[Prepaid Expenses](http://en.wikipedia.org/wiki/Prepaid_Expense)

[Investment Securities](http://en.wikipedia.org/wiki/Consolidation_(business)) (Held for trading)

Other Current Assets

**Non-Current Assets (**[**Fixed Assets**](http://en.wikipedia.org/wiki/Fixed_Asset)**)**

[Property, Plant and Equipment](http://en.wikipedia.org/wiki/Property,_Plant_and_Equipment) (PPE)

*Less:* [*Accumulated Depreciation*](http://en.wikipedia.org/wiki/Accumulated_Depreciation)

Investment Securities ([Available for sale](http://en.wikipedia.org/wiki/Available_for_sale)/Held-to-maturity)

[Investments](http://en.wikipedia.org/wiki/Consolidation_(business)) in [Associates](http://en.wikipedia.org/wiki/Associate_company)

[Intangible Assets](http://en.wikipedia.org/wiki/Intangible_assets) (Patent, Copyright, Trademark, etc.)

*Less: Accumulated Amortization*

[Goodwill](http://en.wikipedia.org/wiki/Goodwill_(accounting))

Other Non-Current Assets, e.g. [Deferred Tax](http://en.wikipedia.org/wiki/Deferred_Tax) Assets, [Lease Receivable](http://en.wikipedia.org/wiki/Finance_lease)

**LIABILITIES and SHAREHOLDERS' EQUITY**

**LIABILITIES**

**Current Liabilities (Creditors: amounts falling due within one year)**

[Accounts Payable](http://en.wikipedia.org/wiki/Accounts_Payable)

Current Income [Tax](http://en.wikipedia.org/wiki/Tax) Payable

Current portion of Loans Payable

[Short-term Provisions](http://en.wikipedia.org/wiki/Provision_(accounting))

Other Current Liabilities, e.g. Unearned Revenue, Deposits

**Non-Current Liabilities (Creditors: amounts falling due after more than one year)**

[Loans](http://en.wikipedia.org/wiki/Loan) Payable

[Issued Debt Securities](http://en.wikipedia.org/wiki/Security_(finance)), e.g. Notes/Bonds Payable

[Deferred Tax](http://en.wikipedia.org/wiki/Deferred_Tax) Liabilities

[Provisions](http://en.wikipedia.org/wiki/Provision_(accounting)), e.g. Pension Obligations

Other Non-Current Liabilities, e.g. [Lease Obligations](http://en.wikipedia.org/wiki/Finance_lease)

**SHAREHOLDERS' EQUITY**

[**Paid-in Capital**](http://en.wikipedia.org/wiki/Paid-in_Capital)

[Share Capital](http://en.wikipedia.org/wiki/Share_Capital) ([Ordinary Shares](http://en.wikipedia.org/wiki/Ordinary_Shares), [Preference Shares](http://en.wikipedia.org/wiki/Preference_Shares))

[Share Premium](http://en.wikipedia.org/wiki/Share_Premium)

*Less:* [*Treasury Shares*](http://en.wikipedia.org/wiki/Treasury_Share)

[**Retained Earnings**](http://en.wikipedia.org/wiki/Retained_Earnings)

[**Revaluation**](http://en.wikipedia.org/wiki/Revaluation_of_fixed_assets#U.S._GAAP_on_Upward_Revaluation_of_Fixed_Assets)[**Reserve**](http://en.wikipedia.org/wiki/Reserve_(accounting))

[**Accumulated Other Comprehensive Income**](http://en.wikipedia.org/wiki/Accumulated_Other_Comprehensive_Income)

## Accounting equation

The '*basic****accounting equation'*** is the foundation for the [double-entry bookkeeping system](http://en.wikipedia.org/wiki/Double-entry_bookkeeping_system). For each transaction, the total debits equal the total credits.

 Assets = Liabilities + Capital 

 A = L + C 

In a corporation, capital represents the stockholders' equity.

In practice

For example: A student buys a [computer](http://en.wikipedia.org/wiki/Computer) for $945. This student borrowed $500 from his best friend and spent another $445 earned from his part-time job. Now his [assets](http://en.wikipedia.org/wiki/Asset) are worth $945, [liabilities](http://en.wikipedia.org/wiki/Liability_(accounting)) are $500, and equity $445.

The formula can be rewritten:

**Assets** - **Liabilities** = (Shareholders' or Owners' **Equity** or Capital)

Now it shows owners' [interest](http://en.wikipedia.org/wiki/Interest) is equal to [property](http://en.wikipedia.org/wiki/Property) (assets) minus [debts](http://en.wikipedia.org/wiki/Debts) (liabilities). Since in a corporation owners are [shareholders](http://en.wikipedia.org/wiki/Shareholders), owner's interest is called [shareholders' equity](http://en.wikipedia.org/wiki/Shareholders%27_equity). Every [accounting](http://en.wikipedia.org/wiki/Accounting) [transaction](http://en.wikipedia.org/wiki/Financial_transaction) affects at least one element of the equation, but always balances.

These are some simple examples, but even the most complicated transactions can be recorded in a similar way. This equation is behind [debits](http://en.wikipedia.org/wiki/Debit), [credits](http://en.wikipedia.org/wiki/Credit_(accounting)), and journal entries.

This equation is part of the transaction analysis model, for which we also write

Owners equity = Contributed Capital + Retained Earnings

Retained Earnings = Net Income – Dividends and

Net Income = Income − Expenses

The equation resulting from making these substitutions in the accounting equation may be referred to as the *expanded* accounting equation, because it yields the breakdown of the [equity](http://en.wikipedia.org/wiki/Ownership_equity) component of the equation

Expanded Accounting Equation

Assets = Liabilities + Stockholders' Equity

Assets = Liabilities + Common Stock + Retained Earnings

Assets = Liabilities + Common Stock + Net Income - Dividends

Assets = Liabilities + Common Stock + Income - Expenses - Dividends

Balance sheet

An elaborate form of this equation is presented in a [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet) which lists all assets, liabilities, and equity, as well as totals to ensure that it balances.

## Accounts payable

**Accounts payable**, also known as Creditors, is money owed by a business to its suppliers and shown on its Balance Sheet as a liability. An accounts payable is recorded in the Account Payable sub-ledger at the time an invoice is vouchered for payment. Vouchered, or vouched, means that an invoice is approved for payment and has been recorded in the General Ledger or AP subledger as an outstanding, or open, liability because it has not been paid. Payables are often categorized as Trade Payables, payables for the purchase of physical goods that are recorded in Inventory, and Expense Payables, payables for the purchase of goods or services that are expensed. Common examples of Expense Payables are advertising, travel, entertainment, office supplies and utilities. *A/P* is a form of [credit](http://en.wikipedia.org/wiki/Credit_(finance)) that suppliers offer to their customers by allowing them to pay for a [product](http://en.wikipedia.org/wiki/Good_(economics)) or [service](http://en.wikipedia.org/wiki/Service_(economics)) after it has already been received. Suppliers offer various payment terms for an invoice. Payment terms may include the offer of a cash discount for paying an invoice within a defined number of days. For example, 2%, 30 Net 31 terms mean that the payor will deduct 2% from the invoice if payment is made within 30 days. If the payment is made on Day 31 then the full amount is paid.

In [households](http://en.wikipedia.org/wiki/Household), accounts payable are ordinarily bills from the [electric company](http://en.wikipedia.org/wiki/Electrical_power_industry), [telephone](http://en.wikipedia.org/wiki/Telephone) company, [cable television](http://en.wikipedia.org/wiki/Cable_television) or [satellite dish](http://en.wikipedia.org/wiki/Satellite_dish) service, [newspaper](http://en.wikipedia.org/wiki/Newspaper) [subscription](http://en.wikipedia.org/wiki/Subscription), and other such regular services. Householders usually track and pay on a monthly basis by hand using cheques, credit cards or internet banking. In a business, there is usually a much broader range of services in the A/P file, and [accountants](http://en.wikipedia.org/wiki/Accountants) or [bookkeepers](http://en.wikipedia.org/wiki/Bookkeeper) usually use [accounting software](http://en.wikipedia.org/wiki/Accounting_software) to track the flow of money into this [liability](http://en.wikipedia.org/wiki/Liability_(accounting)) account when they receive invoices and out of it when they make payments. Increasingly, large firms are using specialized Accounts Payable automation solutions (commonly called ePayables) to automate the paper and manual elements of processing an organization's invoices.

Commonly, a supplier will ship a product, issue an invoice, and collect payment later, which describes a [cash conversion cycle](http://en.wikipedia.org/wiki/Cash_conversion_cycle), a period of time during which the supplier has already paid for raw materials but hasn't been paid in return by the final customer.

When the invoice is received by the purchaser it is matched to the [packing slip](http://en.wikipedia.org/wiki/Packing_slip) and [purchase order](http://en.wikipedia.org/wiki/Purchase_order), and if all is in order, the invoice is paid. This is referred to as the three-way match.The three-way match can slow down the payment process, so the method may be modified. For example, three-way matching may be limited solely to large-value invoices, or the matching is automatically approved if the received quantity is within a certain percentage of the amount authorized in the purchase order.

Expense administration

Expense administration is usually closely related to accounts payable, and sometimes those functions are performed by the same employee. The expense administrator verifies employees' [expense reports](http://en.wikipedia.org/wiki/Expense_report), confirming that receipts exist to support airline, ground transport, meals and entertainment, telephone, hotel, and other expenses. This documentation is necessary for tax purposes and to prevent reimbursement of inappropriate or erroneous expenses. Airline expenses are, perhaps, the most prone to fraud because of the high cost of air travel and the confusing nature of airline-related documentation, which can consist of an array of reservations, receipts, and actual tickets.

Internal controls

A variety of checks against abuse are usually present to prevent [embezzlement](http://en.wikipedia.org/wiki/Embezzlement) by accounts payable personnel. [Segregation of duties](http://en.wikipedia.org/wiki/Segregation_of_duties) is a common control. Nearly all companies have a junior employee process and print a cheque and a senior employee review and sign the cheque. Often, the accounting software will limit each employee to performing only the functions assigned to them, so that there is no way any one employee – even the [controller](http://en.wikipedia.org/wiki/Comptroller) – can singlehandedly make a payment.

Some companies also separate the functions of adding new vendors and entering vouchers. This makes it impossible for an employee to add himself as a vendor and then cut a cheque to himself without colluding with another employee. This file is referred to as the master vendor file. It is the repository of all significant information about the company's suppliers. It is the reference point for accounts payable when it comes to paying invoices.[[3]](http://en.wikipedia.org/wiki/Accounts_payable#cite_note-2)

In addition, most companies require a second signature on cheques whose amount exceeds a specified threshold.

Accounts payable personnel must watch for fraudulent invoices. In the absence of a [purchase order](http://en.wikipedia.org/wiki/Purchase_order) system, the first line of defense is the approving manager. However, A/P staff should become familiar with a few common problems, such as "[Yellow Pages](http://en.wikipedia.org/wiki/Yellow_Pages)" [rip-offs](http://en.wikipedia.org/wiki/Ripoff) in which fraudulent operators offer to place an advertisement. The walking-fingers logo has never been trademarked, and there are many different Yellow Pages-style directories, most of which have a small distribution. According to an article in the Winter 2000 [American Payroll Association](http://en.wikipedia.org/wiki/American_Payroll_Association)'s *Employer Practices*, "Vendors may send documents that look like invoices but in small print they state "this is not a bill." These may be charges for directory listings or advertisements. Recently, some companies have begun sending what appears to be a rebate or refund check; in reality, it is a registration for services that is activated when the document is returned with a signature."

In accounts payable, a simple mistake can cause a large overpayment. A common example involves duplicate invoices. An invoice may be temporarily misplaced or still in the approval status when the vendors calls to inquire into its payment status. After the A/P staff member looks it up and finds it has not been paid, the vendor sends a duplicate invoice; meanwhile the original invoice shows up and gets paid. Then the duplicate invoice arrives and inadvertently gets paid as well, perhaps under a slightly different invoice number.

Audits of accounts payable

Auditors often focus on the existence of approved invoices, expense reports, and other supporting documentation to support cheques that were cut. The presence of a confirmation or statement from the supplier is reasonable proof of the existence of the account. It is not uncommon for some of this documentation to be lost or misfiled by the time the audit rolls around. An auditor may decide to expand the sample size in such situations.

Auditors typically prepare an ageing structure of accounts payable for a better understanding of outstanding debts over certain periods (30, 60, 90 days, etc.). Such structures are helpful in the correct presentation of the balance sheet as of year end

Accounts Payable Automation

**ePayables** are defined as the technology or process automation solutions that automate any part of the accounts payable ("AP") process. The key to Accounts Payable Automation is to develop or invest in technology that will enable the company to free up labor from task the technology can perform. Examples are opening mail, scanning, entry in to the Accounting System or ERP System and filing(4).

There are three main components in AP Automation.

1. 100% Electronic Invoices
2. Event Driven Workflow
3. Reporting Layer to Track all Actions

By automating the process, companies can greatly reduce the time it takes to process an invoice. In most cases it can be taken down from several weeks or months to a matter of days. Once an invoice is available electronically, it can automatically be matched against the order and routed for payment and sent to the AP department for processing. Technology also automates the processing of periodic or contract-based purchase invoices. When technology like this is fully implemented, most invoices no longer require human intervention. [[5]](http://en.wikipedia.org/wiki/Accounts_payable#cite_note-4)

Accounts receivable

**Accounts receivable** also known as Debtors, is money owed to a business by its clients (customers) and shown on its Balance Sheet as an asset.[[1]](http://en.wikipedia.org/wiki/Accounts_receivable#cite_note-0) It is one of a series of [accounting](http://en.wikipedia.org/wiki/Accounting) transactions dealing with the billing of a [customer](http://en.wikipedia.org/wiki/Customer) for [goods](http://en.wikipedia.org/wiki/Good_(economics)) and [services](http://en.wikipedia.org/wiki/Service_(economics)) that the customer has ordered.

## Overview

Accounts receivable represents money owed by entities to the firm on the sale of products or services on credit. In most business entities, accounts receivable is typically executed by generating an [invoice](http://en.wikipedia.org/wiki/Invoice) and either mailing or [electronically](http://en.wikipedia.org/wiki/Electronic_billing) delivering it to the customer, who, in turn, must pay it within an established timeframe, called *credit terms* or *payment terms*.  
  
The accounts receivable departments use the *sales ledger*, this is because a sales ledger normally records [[2]](http://en.wikipedia.org/wiki/Accounts_receivable#cite_note-1):  
- The sales a business has made.  
- The amount of money received for goods or services.  
- The amount of money owed at the end of each month varies (debtors).  
  
The accounts receivable team is in charge of receiving funds on behalf of a company and applying it towards their current pending balances.  
Collections and cashiering teams are part of the accounts receivable department. While the collection's department seeks the debtor, the cashiering team applies the monies received.

## Payment terms

An example of a common payment term is [Net 30](http://en.wikipedia.org/wiki/Net_30), which means that payment is due at the end of 30 days from the date of invoice. The [debtor](http://en.wikipedia.org/wiki/Debtor) is free to pay before the due date; businesses can offer a discount for early payment. Other common payment terms include *Net 45*, *Net 60* and 30 days end of month.

Booking a receivable is accomplished by a simple accounting transaction; however, the process of maintaining and collecting payments on the accounts receivable subsidiary account balances can be a full-time proposition. Depending on the industry in practice, accounts receivable payments can be received up to 10 – 15 days after the due date has been reached. These types of payment practices are sometimes developed by industry standards, corporate policy, or because of the financial condition of the client.

Since not all customer debts will be collected, businesses typically estimate the amount of and then record an [allowance for doubtful accounts](http://en.wikipedia.org/wiki/Allowance_for_bad_debts)[[3]](http://en.wikipedia.org/wiki/Accounts_receivable#cite_note-2) which appears on the balance sheet as a [contra account](http://en.wikipedia.org/wiki/Contra_account) that offsets total accounts receivable. When accounts receivable are not paid, some companies turn them over to third party [collection agencies](http://en.wikipedia.org/wiki/Collection_agency) or [collection attorneys](http://en.wikipedia.org/wiki/Creditor%27s_rights) who will attempt to recover the debt via negotiating payment plans, settlement offers or pursuing other legal action.

Outstanding advances are part of accounts receivable if a company gets an order from its customers with payment terms agreed upon in advance. Since billing is done to claim the advances several times, this area of collectible is not reflected in accounts receivables. Ideally, since advance payment occurs within a mutually agreed-upon term, it is the responsibility of the accounts department to periodically take out the statement showing advance collectible and should be provided to sales & marketing for collection of advances. The payment of accounts receivable can be protected either by a [letter of credit](http://en.wikipedia.org/wiki/Letter_of_credit) or by [Trade Credit Insurance](http://en.wikipedia.org/wiki/Trade_Credit_Insurance)

## Accounts Receivable Age Analysis

The Accounts Receivable Age Analysis Printout, also known as the Debtors Book is divided in categories for current, 30 days, 60 days, 90 days, 120 days, 150 days and 180 days and overdue that are produced in Modern Accounting Systems. The printout is done in the order of the Chart of Accounts for the Accounts Receivable and/or Debtors Book. The option to include Zero Balances outstanding or to specifically leave it out is also possible in the printout features.

## Special uses

Companies can use their accounts receivable as [collateral](http://en.wikipedia.org/wiki/Collateral_(finance)) when obtaining a [loan](http://en.wikipedia.org/wiki/Loan) ([asset-based lending](http://en.wikipedia.org/wiki/Asset-based_lending)). They may also sell them through [factoring](http://en.wikipedia.org/wiki/Factoring_(finance)) or on an [exchange](http://en.wikipedia.org/wiki/Exchange). Pools or portfolios of accounts receivable can be sold in [capital markets](http://en.wikipedia.org/wiki/Capital_markets) through [securitization](http://en.wikipedia.org/wiki/Securitization).

[](#_top)For tax reporting purposes, a general provision for bad debts is not an allowable deduction from profit[[4]](http://en.wikipedia.org/wiki/Accounts_receivable#cite_note-3) - a business can only get relief for specific debtors that have gone bad. However, for financial reporting purposes, companies may choose to have a general provision against bad debts consistent with their past experience of customer payments, in order to avoid over-stating debtors in the [balance sheet](http://en.wikipedia.org/wiki/Balance_sheet).