UNIT I

Introduction to International Business

Business activities done across national borders is International Business. The International business is the purchasing and selling of the goods, commodities and services outside its national borders. Such trade modes might be owned by the state or privately owned organization, in which, the organization explores trade opportunities outside its domestic national borders to extend their own particular business activities, for example, manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication and so on.

Nations that were away from each other, because of their geological separations and financial and social contrasts are now connecting with each other. World Trade Organization established by the administration of various nations is one of the major contributory factors to the expanded connections and the business relationship among the countries.

The national economies are dynamically getting borderless and fused into the world economy as it is clear that the world has today come to be known as a 'global village'. Numerous more organization are making passage into a worldwide business which presents them with opportunities for development and tremendous benefits.

India was trading with different nations for quite a while, yet it has quickened its progress of incorporating with the world economy and expanding its foreign trade and investment.

Difference between Domestic Business and International Business

1. Domestic Business :

Domestic business refers to the business where economic transactions are conducted within the geographical boundaries of the one country. The buyer and seller in domestic business belong to same country. It is is limited to territory. In domestic business it is very easy to conduct business research. The nature of customers in domestic business is homogeneous. In this currency of parent/home country is used for doing business.

2. International Business :

International business refers to the business where economic transactions are conducted across border with several countries in the world. The buyer and seller in international business belong to different country. It is is quite wide. In international business, business research is very expensive and hard to conduct. The nature of customers in international business is heterogeneous. In this different types of currencies of different countries are used for doing business.

Difference between Domestic Business and International Business :

S.No.	DOMESTIC BUSINESS	INTERNATIONAL BUSINESS
01.	Domestic business refers to the business where economic transactions are conducted within the geographical boundaries of the one country.	International business refers to the business where economic transactions are conducted across border with several countries in the world.
02.	In Domestic business buyer and seller belong to same country.	In International business buyer and seller belong to different countries.
03.	Domestic business is limited to territory.	International business is quite wide.
04.	In Domestic business selling procedure remain unaltered.	In International business selling procedure changes.
05.	Quality of product or standards may be lower.	Quality of product or standards are expected and enforced.
06.	In domestic business it is very easy to conduct business research.	In international business, business research is very expensive and hard to conduct.
07.	It deals with single currency.	It deals with multiple currencies.
08.	In domestic business capital investment is less.	In international business capital investment is huge.
09.	There are few restrictions on domestic business.	There are a lot restrictions on international business.
10.	The nature of customers in domestic business is homogeneous.	The nature of customers in international business is heterogeneous.

11.	In domestic business the degree of risks are low.	In international business the degree of risks are high.

ADVANTAGES OF INTERNATIONAL BUSINESS

Increased Revenues

The revenues of the companies which are trading internationally are much more than the companies which are trading in the domestic country. The customers of the MNC's are more because they have customers all over the world and their reach to customers is higher than the domestic companies. This leads to higher selling of goods in the global market and it leads to increased revenues of the company.

Reaching New Customers

International business is all about reaching new customers in the market of different countries. The domestic companies are restricted to their home customers and MNC's are having a large customer base all over the world. MNC's reach customers at a global level because they expand their business in different countries. Products of MNC's are reached to the customers globally.

Accessing New Talent

The success of a company depends on the employees and management who are working with the company. This plays an important role in decision making and actions of the company. Expanding to the international level could give you access to talented, valuable employees and business partners who helps you in taking the enterprise to new heights.

Optimum Utilization Of Available Resources

International business reduces the wastage of resources as it works in the different countries and uses the resources of all the countries, they are working in. This leads to the optimum utilization of resources. Every country which is producing the goods are producing it at maximum advantage.

Benefits To Consumers

In the international market, consumers can choose between domestic goods and international goods. Consumers can have a good quality of products at a low price compared to that of the quality and price of domestic products. Consumers have a large variety of goods to choose from according to their taste and preference.

Product Flexibility

If there is a product whose demand is less in the domestic market then it can be sold in the international market if there is demand for it in the foreign markets. The companies have to find countries in which the demand for their product is higher and they can also sell it on the higher prices if there is high demand. It can also offer a wide range of products in the global market.

Brand Image

If the company deals in the international market and target the customers of the different countries globally then the brand name is popularized among the country and it enhances your brand image in the foreign market. Image of the brand is enhanced by international growth and the rapid market boost leads to brand image development. It can also lead to expansion of property, copyrights, trademarks to new countries.

DISADVANTAGES OF INTERNATIONAL BUSINESS

Language Barriers

Language barriers are one of the major disadvantages of international business. Different countries have their distinct local languages and culture, which makes it quite difficult to communicate efficiently with peoples. These differences create barriers in developing better trade relations among nations.

Economic Dependence

International business leads to more dependence of under-developed countries on developed countries. They import large amounts of goods for their development from these developing nations. Too much reliance on other nations led to exploitation of the economy and industrial development of importing countries.

Mis-Utilization Of Natural Resources

Another major disadvantage of international business is that it may exhaust the natural resources of nations due to the excessive exports. Several nations make over-utilization of their resources for the sake of earning more profits which will have adverse effects on their economy in the long run.

Exploitation Of Home Industry

International business leads to exploitation of home industries of an importing country. Developed nations even adopt dumping policy and sell their products at prices below the cost of production. This excessive foreign competition and unrestricted imports create a threat for the survival of domestic industries.

Servicing Customers

International business finds it difficult in providing after-sale services to its customers. Differences in cultures and languages create main problems in communicating to people for solving their issues. Companies are required to communicate as per different time zones, distinct languages, and should set up 24×7 customer service centers.

Rivalry Among Nations

International business may also lead to tension among nations due to intense competition of exporting more and more products. This can hamper international peace and can often lead to war among nations.

APPROACHES TO INTERNATIONAL BUSINESS

EPRG MODEL

Ethnocentric Orientation

The practices and policies of headquarters and of the operating company in the home country become the default standard to which all subsidiaries need to comply. Such companies do not adapt their products to the needs and wants of other countries where they have operations. There are no changes in product specification, price and promotion measures between native market and overseas markets.

The general attitude of a company's senior management team is that nationals from the company's native country are more capable to drive international activities forward as compared to non-native employees working at its subsidiaries. The exercises, activities and policies of the functioning company in the native country becomes the default standard to which all subsidiaries need to abide by.

The benefit of this mind set is that it overcomes the shortage of qualified managers in the anchoring nations by migrating them from home countries. This develops an affiliated corporate culture and aids transfer core competences more easily. The major drawback of this mind set is that it results in cultural short-sightedness and does not promote the best and brightest in a firm.

Regiocentric Orientation

In this approach a company finds economic, cultural or political similarities among regions in order to satisfy the similar needs of potential consumers. For example, countries like Pakistan, India and Bangladesh are very similar. They possess a strong regional identity.

Geocentric Orientation

Geocentric approach encourages global marketing. This does not equate superiority with nationality. Irrespective of the nationality, the company tries to seek the best men and the problems are solved globally within the legal and political limits. Thus, ensuring efficient use of human resources by building strong culture and informal management channels.

The main disadvantages are that national immigration policies may put limits to its implementation and it ends up expensive compared to polycentrism. Finally, it tries to balance both global integration and local responsiveness.

Polycentric Orientation

In this approach, a company gives equal importance to every country’s domestic market. Every participating country is treated solely and individual strategies are carried out. This approach is especially suitable for countries with certain financial, political and cultural constraints.

This perception mitigates the chance of cultural myopia and is often less expensive to execute when compared to ethnocentricity. This is because it does not need to send skilled managers out to maintain centralized policies. The major disadvantage of this nature is it can restrict career mobility for both local as well as foreign nationals, neglect headquarters of foreign subsidiaries and it can also bring down the chances of achieving synergy.

CHANGING ENVIRONMENT OF INTERNATIONAL BUSINESS

Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

Population and Demographic Shifts

The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

Speed of Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

More Informed Buyers

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

Increased Business Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

Slower Economic Growth

The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

Emergence of Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.