INTERNATIONAL BUSINESS

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UNIT – 1

International Business

International Business refers to the global business where goods and services are exchanged between countries. It involves transfer of goods, services, information, resources, capital etc.

International business comprises of all commercial transactions that take place between two or more countries beyond their political boundaries. These transactions may take place between private companies or governments of different countries.

According to Grosse and Kojawa, *"International business is defined as transactions devised and carried out across international borders to satisfy corporations and individuals"*

Drivers of international business-

(i) *Continuous decline in trade restrictions* and investment barriers after the World War II has resulted in increased international business between countries.

(ii) *Changes in technology and communication* have made it easier to interact and exchange goods, services and information across geographic borders.

(iii) *Emergence of global institutions* like IMF, GATT and WTO have helped in managing and regulating the foreign markets and provided a platform to its member countries for trading across borders.

(iv) Potential markets of the world are being exploited to generate maximum returns due to *increase in the level of competition.*

Types of orientation in International Business-

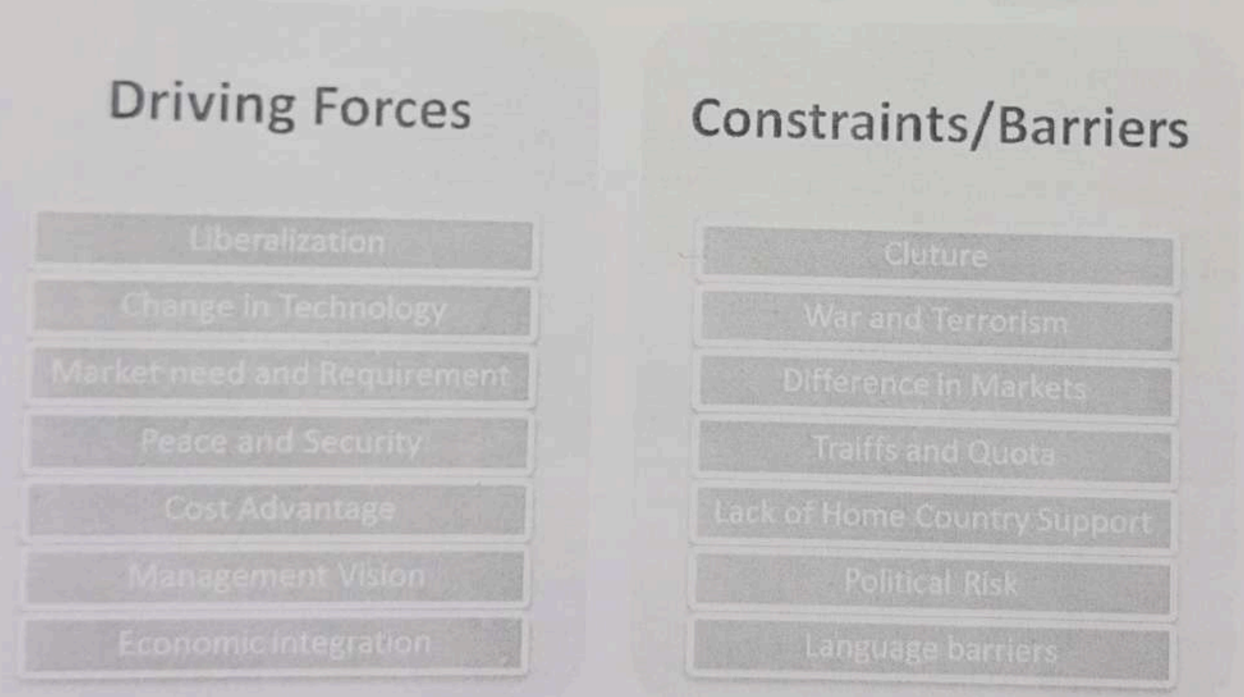
(A) **Ethnocentric approach** – It focuses on the values and ethics of the home country. The strategies are devised and formulated for domestic operations first and the overseas operations are secondary. The foreign activities are conducted mainly to distribute surplus. This approach is suitable for small companies as less investment is required and less risk is involved. The activities are managed by an export department or a separate international division.

(B) **Polycentric approach** – Under such an approach a company's policies and procedures are based on host country. The local market needs and requirements are met by a team of local employees and various foreign subsidiaries are established to work independently to achieve the objectives and plans of the organization. Such an approach is generally used by Multi-national Corporations.

(C) **Regiocentric approach** – It is applicable when the company caters to different regions or different markets. Each region has a special or distinctive feature depending upon regional factors, political factors, economic factors etc. The regions are categorized and strategies are for formulated accordingly having national and regional headquarters.

(D) **Geocentric approach** – It applies for the entire globe or world. A Company following this approach uses common practices and strategies throughout the world i.e. Common HR and marketing practices. It helps in building a common brand image and goodwill. Such an approach is used by large scale enterprises.

Factors affecting International Business



Reasons for any business to go International is -

There are some certain causes in our daily life that why we need the international business. So, here we describe some reasons to enter international business below:

- No nation in the world can produce all of the products that its people need and want.

- Some nations have an abundance of natural resources and lack of technological knowhow, like Saudi Arabia and some there countries have sufficient technology but few natural resources, like Japan.
- If a country becomes self-sufficient then other nations would like to trade with that country in order to meet their people's want.

Main reasons to enter international business are:

1. **Absolute advantage**: When a country has a monopoly in producing specific products or when the country produces a product more cheaply than all other nations of the world it is called the absolute advantage. Absolute products are mainly given by nature. For example, South Africa produces diamond, Saudi Arabia, and some Middle Eastern Countries produce oil, gold etc.
2. **Comparative advantage**: A country should produce and sell those types of goods and services in which it enjoys more advantages than any other country and exchanged the surplus with that country. For example, USA produces aircraft, computer, etc. and exchanges their surplus with Bangladesh.
3. **Stay Competitive**: No matter what production you are involved in today you will find competition remaining to go international. If you are continually trying to increase your company, then an international plan is crucial to your success as well. It doesn't positively mean you have to construct a new headquarter in an adopted country but should include operational methods on how to improve relationships and serve international consumer needs/desires. In today's world, you will always have global customers.
4. **Opportunities Abroad**: Just as students are stealing their educational studies to different countries to gain even more enriching possibilities, companies will find themselves in comparable situations. What you may do strongly within our own country's border may reap an even bigger honour in another country. It may include new attachments, resources, financial receipts, and company enhancements. The possibilities are limitless.
5. **Growth as a Company**: If an organization wants to continue to expand and generate a strong business culture throughout them then they must leave their snug nest as home and take risks into newer regions. As I mentioned earlier in this column company's must look at developing new carriers for their company to develop and teach their employees new fundamental skill sets to remain competitive in today's international world. No organization wants to be looked down upon or seen as archaic in keeping up with the new standards of today's modern world.
6. **Skilled Personnel**: For a company to succeed long term they must have a talented, intelligent, and multicultural workforce that can take them to new levels. A workforce of different backgrounds and cultures brings forth new ideas, viewpoints, and knowledge that would have otherwise been unheard of in a workforce of similar backgrounds. A multicultural workforce is enhancing in many positive aspects and helps with your company's expansion internationally. Local employees who are knowledge about the foreign culture give you a great advantage in connections, product development, and research or long-term projects.

7. **Take Advantage of Technology**: Technology has grown for businesses in ways silent. However, one main significant trait it brings its ability to connect the world. You can deal with customers abroad, manage projects from a distant country, and hold conferences over a video conference. With all these highly important and useful methods at your fingerprints.

The advantages of international business:

1. **Earning valuable foreign currency:** A country is able to earn valuable foreign currency by exporting its goods to other countries.
2. **Division of labour:** International business leads to specialization in the production of goods. Thus, quality goods for which it has maximum advantage.
3. **Optimum utilization of available resources:** International business reduces waste of national resources. It helps each country to make optimum use of its natural resources. Every country produces those goods for which it has maximum advantage.
4. **Increase in the standard of living of people:** Sale of surplus production of one country to another country leads to increase in the incomes and savings of the people of the former country. This raises the standard of living of the people of the exporting country.
5. **Benefits to consumers:** Consumers are also benefited from international business. A variety of goods of better quality is available to them at reasonable prices. Hence, consumers of importing countries are benefited as they have a good scope of choice of products.
6. **Encouragement to industrialization:** Exchange of technological know-how enables underdeveloped and developing countries to establish new industries with the assistance of foreign aid. Thus, international business helps in the development of the industry.
7. **International peace and harmony:** International business removes rivalry between different countries and promotes international peace and harmony. It creates dependence on each other, improves mutual confidence and good faith.
8. **Cultural development:** International business fosters exchange of culture and ideas between countries having greater diversities. A better way of life, dress, food, etc. can be adopted from other countries.
9. **Economies of large-scale production:** International business leads to production on a large scale because of extensive demand. All the countries of the world can obtain the advantages of large-scale production.
10. **Stability in prices of products:** International business irons out wide fluctuations in the prices of products. It leads to stabilization of prices of products throughout the world.
11. **Widening the market for products:** International business widens the market for products all over the world. With the increase in the scale of operation, the profit of the business increases.
12. **Advantageous in emergencies:** International business enables us to face emergencies. In the case of natural calamity, goods can be imported to meet necessaries.

13. **Creating employment opportunities:** International business boosts employment opportunities in an export-oriented market. It raises the standard of living of the countries dealing international business.
14. **Increase in Government revenue:** The Government imposes import and export duties for this trade. Thus, Government is able to earn a great deal of revenue from international business.
15. **Other advantages:**

- Effective business education Improvement in production systems.
- Elimination of monopolies, etc.

Disadvantages of international business

1. **Competition with developed countries:** Developing countries are unable to compete with developed countries. It hampers the growth and development of developing countries unless the international business is controlled.
2. **Adverse effects on the economy:** One country affects the economy of another country through international business. Moreover, large-scale exports discourage the industrial development of importing country. Consequently, the economy of the importing country suffers.
3. **Rivalry among nations:** Intense competition and eagerness to export more commodities may lead rivalry among nations. As a consequence, international peace may be hampered.
4. **Colonization:** Sometimes, the importing country is reduced to a colony due to economic and political dependence and industrial backwardness.
5. **Exploitation:** International business leads to exploitation of developing countries the developed countries. The prosperous and dominant countries regulate the economy poor nations.
6. **Legal problems:** Varied laws regulations and customs formalities followed different countries, have a direct b earring on their export and import trade.
7. **Publicity of undesirable fashions:** Cultural values and heritages are not identical in all the countries. There are many aspects, which may not be suitable for our atmosphere, culture, tradition, etc. This indecency is often found to be created in the name of cultural exchange.
8. **Language problems:** Different languages in different countries create barriers to establish trade relations between various countries.
9. **Dumping policy:** Developed countries often sell their products to developing countries below the cost of production. As a result, industries in developing countries of the close down.
10. **Complicated technical procedure:** International business in highly technical and it has the complicated procedure. It involves various uses of important documents. It required expert services to cope with complicated procedures at different stages.

11. **Shortage of goods in the exporting country:** Sometimes, traders prefer to sell their goods to other countries instead of in their own country in order to earn more profits. This results in the shortage of goods within the home country.
12. **Adverse effects on home industry:** International business poses a threat to the survival of infant and nascent industries. Due to foreign competition and unrestricted imports upcoming industries in the home country may collapse.

Modes of entry in foreign market

(1)Exporting – It is the process of selling goods and services produced in one country to other country. Exporting may be direct or indirect.

Under direct export – A company capitalizing on economies of scale in production concentrated in the home country, establishes a proper system for organizing export functions and procuring foreign sales.

Indirect export involves exporting through domestically based export intermediaries. The exporter has no control over his product in the foreign market.

Advantages –
1. It helps in distribution of surplus
2. It is less costly
3. It is less risky
4. Under direct export the exporter has control over selection of market 5. It helps in fast market access

Disadvantages –
1. High start-up cost in case of direct exports
2. The exporter has little or no control over distribution of products
3. Exporting through export intermediaries increase the cost of product

(2) Joint Venture – It is a strategy used by companies to enter a foreign market by joining hands and sharing ownership and management with another company. It is used when two or more companies want to achieve some common objectives and expand international operations. The common objectives are –

- Foreign market entry
- Risk/reward sharing
- Technology sharing
- Joint product development
- Conforming to government regulations

It is useful to meet shortage of financial resources, physical or managerial resources

Advantages –

1. Technological competence
2. Optimum use of resources
3. Partners are able to learn from each other

Disadvantages –

1. Conflicts over asymmetric investments
2. It may be costly
3. Cultural and political stability may pose a threat to successful operations 4. Conflicts in management

(3) Outsourcing – It is a cost effective strategy used by companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally. It includes both domestic and foreign contracting and also off shoring (relocating a business function to another country).

Advantages –

1. Swiftness and expertise in operations
2. Concentration on core process rather than supporting ones
3. Risk sharing
4. Reduced costs

Disadvantages

1. Risk of exposing confidential data
2. Hidden costs
3. Lack of customer focus

(4) Franchising – It is a system in which semi-independent business owners (franchisees) pay fees and royalty to a parent company (franchiser) in return for the right to be identified by its trademark, to sell its product or services, and often to use its business format or system.

Advantages –

1. It is less risky
2. Advantage of expertise of franchiser
3. Highly motivated employees

Disadvantages

1. Difficulty in keeping trade secrets
2. Franchisee may become a future competitor
3. A wrong franchisee may ruin company's name and goodwill

(5) Turn Key Project – It involves the delivery of operating industrial plant to the client without any active participation. A company pays a contractor to design and construct new facilities and train personnel to export its process and technology to another country. Turn key projects may be of various types –

BOD – Build, Owned and Develop
BOLT – Build, Owned, leased and Transferred
BOOT – Build, Owned, Operate and Transfer

(6) Foreign Direct Investment – It is a mode of entering foreign market through investment. Investment may be direct or indirectly through Financial Institutions. FDI influences the investment pattern of the economy and helps to increase overall development. The extent to which FDI is allowed in a country is subjected to the government regulations of that country. It can be done by purchasing shares of a company, property and assets.

Advantages –

1. Modifications can be made at any point of time
2. It is an easy mode of entry

Disadvantages

1. The government policies may not be helpful
2. The return on Investment may be low

(7) Mergers & Acquisitions – A merger is a combination of two or more district entities into one, the desired effect being accumulation of assets and liabilities of distinct entities and several other benefits such as, economies of scale, tax benefits, fast growth, synergy and diversification etc. The merging entities cease to be in existence and merge into a single servicing entity.

Acquisition implies acquisition of controlling interest in a company by another company. It does not lead to dissolution of company whose shares are acquired. It may be a friendly or hostile acquisition or a bail out takeover.

(8) Licensing – Licensing is a method in which a firm gives permission to a person to use its legally protected product or technology (trademarked or copyrighted) and to do business in a particular manner, for an agreed period of time and within an agreed territory. It is a very easy method to enter foreign market as less control and communication is involved. The financial risk is transferred to the licensee and there is better utilization of resources.

Advantages –

1. Easy appointment
2. Less investment is involved
3. Low cost of labour

Disadvantages

1. This method is time consuming
2. Decline in product quality may harm the reputation of licensor

(9) Contract manufacturing – When a foreign firm hires a local manufacturer to produce their product or a part of their product it is known as contract manufacturing. This method utilizes the skills of a local manufacturer and helps in reducing cost of production. The marketing and selling of the product is the responsibility of the international firm.

Advantages –

1. Low cost of production
2. Development of medium and small scale industries
3. No dilution of control

Disadvantages –

1. Difficulty in maintaining quality standards
2. Local manufacturers in foreign market may lose business

(10) Strategic Alliance – It is a voluntary formal agreement between two companies to pool their resources to achieve a common set of objectives while remaining independent entities. It is mainly used to expand the production capacity and increase market share for a product. Alliances help in developing new technologies and utilizing brand image and market knowledge of both the companies.

Barriers to international trade

International trade is the most important and most profitable business nowadays but there are some barriers to international trade. For desiring to enter into international trade, we face some obstacles and those are discussed below:

1. **Cultural and social barriers:** A nation's cultural and social forces can restrict international business. Culture consists of a country's general concept and values and tangible items such as food, clothing, building etc. Social forces include family, education, religion and custom. Selling products from one country to another country is sometimes difficult when the culture of two countries differ significantly.
2. **Political barriers:** The political climate of a country plays a major impact on international trade. Political violence may change the attitudes towards the foreign firms at any time. And this impact can create an unfavourable atmosphere for international business.
3. **Tariffs and trade restrictions:** Tariffs and trade restrictions are also the barriers to international trade. They are discussed below:

- **Tariffs:** A duty or tax, levied on goods brought into a country. Tariffs can be used to discourage foreign competitors from entering a digestive market. Import tariffs are two types-protective tariffs and revenue Tariffs.
- **Quotas:** A limit on the amount of a product that can leave or enter a country.
- **Embargoes:** A total ban on certain imports or exports.

4. **Boycotts:** A government boycott is an absolute prohibition on the purchase and importation of certain goods from other countries. For example, Nestle products were boycotted by a certain group that considered the way nestle promoted baby milk formula to be misleading to mothers and harmful to their babies in fewer development countries.
5. **Standards:** Non-tariff barriers of this category include standards to protect health, safety and product quality. The standards are sometimes used in an unduly stringent or discriminating way to restrict trade.
6. **Anti-dumping Penalties:** It is one kind of practice whereby a producer intentionally sells its products for less than the cost of the product in order to undermine the competition and take control of the market.
7. **Monetary Barriers:** There are three such barriers to consider:
    - **Blocked currency:** Blocked currency is used as a political weapon is response to difficult balance payments situation. The blockage is accomplished by refusing to allow importers to exchange their national currency for the seller's currency.
    - **Differential exchange rate:** The differential exchange rate is a particularly ingenious method of controlling imports. It encourages the importance of goods the government deems desirable and discourage importation of goods the government does not want. The essential mechanism requires the importer to pay the varying amount of domestic currency for foreign currency with which to purchase products in different categories. Such as desirable and less desirable products.
    - **Government approval for securing foreign exchange:** Countries experiencing severe shortages of foreign exchange often use it. At one time or another, most Latin American and East European countries have required all foreign exchange transactions to be approved by the central bank. Thus importers who want to buy foreign goods must apply of ran exchange permit that is permission to exchange an amount of local currency for foreign currency.

Advantages & Disadvantages of a Domestic Business

Within a domestic environment, businesses are affected by a combination of economic, legal and cultural factors specific to that domestic environment, or nation. A business can't necessarily control these factors, but it can work to respond to them appropriately. Despite its complications, domestic business is far simpler than international business. When it has a presence in multiple nations, a business must work to understand and adapt to each national or domestic environment in numerous aspects of business.

Advantage: Simpler Market Analysis

Understanding each target market's preferences poses a challenge when operating in international markets. Firms may need to invest substantial resources in analysing what customers from other countries are most likely to purchase, and how to market to them. This may require a significant investment of time in each country, whereas in the domestic environment, a firm can often predict customer preferences more easily. It likely is more familiar with competitors' offerings and can more easily understand its own market niche.

Disadvantage: Greater Impact from Cyclical Changes

Predicting cyclical changes usually tends to be easier in the domestic business environment. This allows a firm to prepare appropriately to take advantage of economic upturns and stay afloat during downturns. However, cyclical changes tend to affect a domestic firm more intensely than an international firm, making it more vulnerable to the ups and downs of the domestic market. A firm that does business in different countries has other ways of generating profit when domestic market conditions are poor, although it may have difficulty accurately predicting the cyclical changes in each country.

Advantage: Communication is a Breeze

In the domestic business environment, communication is typically easier than in international environments. Employees in the domestic environment are typically from the same culture and speak the same language fluently, although exceptions do of course exist. Close communication must be maintained between operations in different nations, which require significant time and effort.

Disadvantage: Limited Market Size

The size of the target market in a domestic environment can present a disadvantage, as the size may be limited. Nestlé branched out from Switzerland into other countries in part because of the extremely limited size of its target market in its home country. Businesses eager to expand may find themselves confronted with the challenge of branching out beyond their domestic borders. Extending into a larger environment can present far greater opportunities for generating a profit, particularly if a firm is willing to diversify its offerings.

Advantage: Streamlined Reporting

A business typically has one set of requirements to follow regarding accountability in the domestic environment. Different sets of regulations may apply when a firm operates in international environments. The firm must then follow local environmental and labour regulations, the laws of its home country pertaining to international business, and any global regulations that apply. It must follow the relevant tax laws for each place of business. Overseeing the firm's international operations requires time and effort. Thus, a domestic firm may have the advantage of spending relatively little on oversight in comparison to an international firm.

Disadvantage: Access to Materials and Labour

In a domestic environment, access to materials and labour may be limited. A firm with international operations might more easily and cheaply procure the raw materials or component parts of its products. Likewise, it might produce products more cost-effectively by creating them where labour is cheaper. A domestic firm might need to follow stricter regulations regarding employee wages. However, providing domestic jobs can lead to greater public goodwill for the company in its domestic environment.

Transnational and Multinational Corporations

A Trans-National Corporation (TNC) or Multi-National Corporation MNC is a business that is based or registered in one country but has outlets/ affiliates or does business in other countries.

Globalisation is one of the major reasons for the growth in TNCs. A number of businesses in order to grow and develop have had to take on a global or international perspective. In addition, TNCs have also caused further globalisation – a two way process.

Many TNCs are based in more economically developed countries such as the UK and USA, with Foreign Direct Investment coming from similar countries. However, an increasing number of TNCs are based in LDCs, for example India's Tata or China's Alibaba.

There are a number of reasons why a TNC might want to set up in a country.

These include: cheap labour, cheap raw materials, good transportation links, a business friendly government (ones which adopt policies which encourage business develop and growth such as low rates of corporation tax), exploitable property rights and so on.

There are a number of examples of TNCs which instantly recognisable. McDonalds has a presence in over 119 countries with approximately 30, 000 restaurants. Likewise there are over 21,000 Starbucks outlets worldwide (2014 figures) operating in over 60 different countries.

The table below show the top 10 TNCs as defined by their global, worldwide assets (source: UNCTAD).

Rank	**Corporation**	**Country**
1	General Electric Co	United States

2	Royal Dutch Shell plc.	United Kingdom	**Industry**	**(in Millions of dollars)**	**Millions of dollars)**
3	Toyota Motor Corporation	Japan	Electrical & electronic Equipment	331 160	656 560
4	Exxon Mobil Corporation	United States	Petroleum expl./ref./distr.	301 898	357 512
5	Total SA	France	Motor vehicles	274 380	403 088
6	BP plc	United Kingdom	Petroleum expl./ref./distr.	231 033	346 808
7	Vodafone Group Plc.	United Kingdom	Petroleum expl./ref./distr.	226 717	238 870
8	Volkswagen Group	Germany	Petroleum expl./ref./distr.	202 899	305 690
9	Chevron Corporation	United States	Telecommunications	182 837	202 763
10	Eni SpA	Italy	Motor vehicles	176 656	446 555
Foreign Assets Total Assets (in			Petroleum expl./ref./distr.	175 736	253 753
			------------	141 021	190 125

What is Transnational

Transnational corporations are something similar to multinational companies, but there is a small difference. Transnational corporations also operate in many countries, and there isn't a centralized management system. These companies might start in one country, and later on they might expand to other nations as well. However, they do not have a home company to manage them and will start as a new company. So, a transnational company does not have subsidiaries. Since there isn't a centralized management system, a transnational company may take decisions suitable to the operating context. They also may not be loyal to the operating country's value system but only will look into their expansion of businesses, since they may have no connection with the particular country. Transnational companies are there all around the world, and they operate truly at the global level.

Difference between Multinational and Transnational

Definition

Multinational companies operate in more than one country and have a centralized management system.

Transnational companies have many companies around the world but do not have a centralized management system.

Operations

Multinational companies own a home company and its subsidiaries.

Transnational companies do not have subsidiaries but just many companies.

Local Response

Since **multinational** companies have a centralized management system, there will be some barriers in decision making.

Transnational companies are able to gain more interest in the local markets where they maintain their own systems.