International Business

The world is fast becoming a global village where there are no boundaries to stop free trade and communication. Keeping pace with it, the way we do business has changed in an unprecedented manner. The competition, in the global marketplace, is at its peak where all companies want to sell their goods to everyone, everywhere on the globe.

What is International Business?

Any business that involves operations in more than one country can be called an international business. International business is related to the trade and investment operations done by entities across national borders.

Firms may assemble, acquire, produce, market, and perform other value-addition-operations on international scale and scope. Business organizations may also engage in collaborations with business partners from different countries.

Example: Toyota, Honda, Budweiser, Kia, McDonalds, Pepsi, KFC, Adidas, Nike, Puma, Umbro, Nissan, Renault, Citroen

Apart from individual firms, governments and international agencies may also get involved in international business transactions. Companies and countries may exchange different types of physical and intellectual assets. These assets can be products, services, capital, technology, knowledge, or labor.

Example: An example of a TNC is Nestlé who employ senior executives from many countries and try to make decisions from a global perspective rather than from one centralized headquarters. However, the terms TNC and MNC are often used interchangeably.

Internationalization of Business (why a business would like to go global?)

There are five major reasons why a business may want to go global −

1. First-mover Advantage − It refers to getting into a new market and enjoy the advantages of being first. It is easy to quickly start doing business and get early adopters by being first.
2. Opportunity for Growth − Potential for growth is a very common reason of internationalization. Your market may saturate in your home country and therefore you may set out on exploring new markets.
3. Small Local Markets − Start-ups in Finland and Nordics have always looked at internationalization as a major strategy from the very beginning because their local market is small.
4. Increase of Customers − If customers are in short supply, it may hit a company’s potential for growth. In such a case, companies may look for internationalization.
5. Discourage Local Competitors − Acquiring a new market may mean discouraging other players from getting into the same business-space as one company is in.

Difference between Domestic and International Business

Basis	Domestic Business	International Business
Nationality of buyers and sellers	People or organizations from one nation participate in domestic business transactions.	People or organisations of different countries participate in international business transactions.
Nationality of other stakeholders	Various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are usually citizens of the same country.	Various other stakeholders such as suppliers, employees, middlemen, shareholders and partners are from different nations
Mobility of factors of production	The degree of mobility of factors of production like labour and capital is relatively more within a country.	The degree of mobility of factors of production like labour and capital across nations is relatively less.
Customer heterogeneity across markets	Domestic markets are relatively more homogeneous in nature.	International markets lack homogeneity due to differences in language, preferences, customs, etc., across markets.
Differences in business systems and practices	Business systems and practices are relatively more homogeneous within a country.	Business systems and practices vary considerably across countries.
Political system and risks	Domestic business is subject to political system and risks of one single country.	Different countries have different forms of political systems and different degrees of risks which often become a barrier to international business.
Business regulations and policies	Domestic business is subject to rules, laws and policies, taxation system, etc., of a single country.	International business transactions are subject to rules, laws and policies, tariffs and quotas, etc. of multiple countries.
Currency used in business transactions	Currency of domestic country is used.	International business transactions involve use of currencies of more than one country.

Advantages of Internationalization (Advantages of International Business)

1. Product Flexibility: -International businesses having products that don't really sell well enough in their local or regional market may find a much better customer base in international markets. A business having international operations may also find new products to sell internationally which they don't offer in the local markets. International businesses have a wider audience and thus they can sell a larger range of products or services.

2. Less Competition:- International markets can have less competition where the businesses can capture a market share quickly. This factor is particularly advantageous when high-quality and superior products are available. Local companies may have the same quality products, but the international businesses may have little competition in a market where an inferior product is available.

3. Protection from National Trends and Events:- Marketing in several countries reduces the vulnerability to events of one country. For example, the political, social, geographical and religious factors that

negatively affect a country may be offset by marketing the same product in a different country. Moreover, risks that can disrupt business can be minimized by marketing internationally.

4. Learning New Methods:- Doing business in more than one country offers great insights to learn new ways of accomplishing things. This new knowledge and experience can pave ways to success in other markets as well.

5. Earning of foreign exchange: International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.

6. More efficient use of resources: As stated earlier, international business operates on a simple principle —produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently.

7. Improving growth prospects and employment potentials: few countries such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'export and flourish', and soon became the star performers on the world map. This helped them not only in improving their growth prospects, but also created opportunities for employment of people living in these countries

8. Increased standard of living: In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

9. Prospects for higher profits: International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.

Problems of International Business

1. Political and Legal Differences: The political and legal environment of foreign markets is different from that of the domestic. The complexity generally increases as the number of countries in which a company does business increases. It should also be noted that the political and legal environment is not the same in all provinces of many home markets.

Example: The political and legal environment is not exactly the same in all the states of India.

2. Cultural Differences: The cultural differences, is one of the most difficult problems in international marketing. Many domestic markets, however, are also not free from cultural diversity.

3. Economic Differences: The economic environment may vary from country to country.

4. Differences in the Currency Unit: The currency unit varies from nation to nation. This may sometimes cause problems of currency convertibility, besides the problems of exchange rate fluctuations. The monetary system and regulations may also vary.

5. Differences in the Language: An international marketer often encounters problems arising out of the differences in the language. Even when the same language is used in different countries, the same words of terms may have different meanings. The language problem, however, is not something peculiar to the international marketing.

Example: The multiplicity of languages in India.

6. Differences in the Marketing Infrastructure: The availability and nature of the marketing facilities available in different countries may vary widely. For example, an advertising medium very effective in one market may not be available or may be underdeveloped in another market.
7. Trade Restrictions: A trade restriction, particularly import controls, is a very important problem, which an international marketer faces.
8. High Costs of Distance: When the markets are far removed by distance, the transport cost becomes high and the time required for affecting the delivery tends to become longer. Distance tends to increase certain other costs also.
9. Differences in Trade Practices: Trade practices and customs may differ between two countries.

Globalization

Although globalization and internationalization are used in the same context, there are some major differences. Globalization is an intensified process of internationalizing a business. In general terms, global companies are larger and more widespread than the low-lying international business organizations.

Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner.

Globalization also refers to the costless cross-border transition of goods and services, capital, knowledge, and labor.

Interdependence and integration of individual countries of the World may be called as Globalisation. Thus, globalisation integrates not only economies but also societies.

Globalization can be thought of to be the result of the opening up of the global economy and the concomitant increase in trade between nations. Globalization means the intensification of cross-country political, cultural, social, economic, and technological interactions that result in the formation of transnational business organization. It also refers to the assimilation of economic, political, and social initiatives on a global scale.

Factors Causing Globalization of Businesses (Drivers of Globalisation)
There are many factors related to the change of technology, international policies, and cultural assimilation that initiated the process of globalization. The following are the most important factors that helped globalization take shape and spread it drastically.
1. The Reduction and Removal of Trade Barriers- After World War II, the General Agreement on Tariffs and Trade (GATT) and the WTO have reduced tariffs and various non-tariff barriers to trade. It enabled more countries to explore their comparative advantage. It has a direct impact on globalization.
2.Trade Negotiations:- The Uruguay Round of negotiations (1986–94) can be considered as the real boon for globalization. It is considerably a large set of measures which was agreed upon exclusively for liberalized trade. As a result, the world trade volume increased by 50% in the following 6 years of the Uruguay Round, paving the way for businesses to span their offerings at an international level.

3. Transport Costs:- Over the last 25 years, sea transport costs have plunged 70%, and the airfreight costs have nosedived 3–4% annually. The result is a boost in international and multi-continental trade flows that led to Globalization.

4. Growth of the Internet:- Expansion of e-commerce due to the growth of the Internet has enabled businesses to compete globally. Essentially, due to the availability of the Internet, consumers are interested to buy products online at a low price after reviewing best deals from multiple vendors. At the same time, online suppliers are saving a lot of marketing costs.

5. Growth of Multinational Corporations:- Multinational Corporations (MNCs) have characterized the global interdependence. They encompass a number of countries. Their sales, profits, and the flow of production is reliant on several countries at once.

6. The Development of Trading Blocs:- The 'regional trade agreement' (RTA) abolished internal barriers to trade and replaced them with a common external tariff against non-members. Trading blocs actually promote globalization and interdependence of economies via trade creation.

Country Attractiveness

The International business environment includes various factors like social, political, regulatory, cultural, legal and technological factors that surround a business entity in various sovereign nations. There are exogenous factors relative to the home environment of the organization in the international environment. These factors influence the decision-making process on the use of resources and capabilities. They also make a nation either more or less attractive to an international business firm.

Adapting to Changing Needs

Firms do not have any control over the external business environment. Therefore, the success of an international company depends upon its ability to adapt to the overall environment.

Its success also depends on the ability to adjust and manage the company’s internal variables to leverage on the opportunities of the external environment. Moreover, the company’s capability to control various threats produced by the same environment, also determines its success.

A term called ‘country attractiveness’ is often discussed in the international business fraternity. It is important to consider attractiveness before we move on to discuss environmental factors.

Country Attractiveness

Country attractiveness is a measure of a country’s attractiveness to the international investors. In international business, investment in foreign countries is the most important aspect and hence firms want to determine how suitable a country is in terms of its external business environments.

International business firms judge the risks and profitability of doing business in a particular country before investing and starting a business there. This judgment includes studying the environmental factors to arrive at a decision.

It is pretty clear that businesses prefer a country that is less costly, more profitable, and has fewer risks. Cost considerations are related with investment. Profitability is dependent on resources. Risks are associated with the environment and hence it is of prime concern.

Risks may be of various types. However, the general consensus is that a country that is more stable in terms of political, social, legal, and economic conditions is more attractive for starting a business.

Modes of Entry into International Business

The long-term advantages of doing international business in a particular country depend upon the following factors −Size of the market demographically, The purchasing power of the consumers in that market and Nature of competition

By considering the above-mentioned factors, firms can rank countries in terms of their attractiveness and profitability. The timing of entry into a nation is a very important factor. If a firm enters the market ahead of other firms, it may quickly develop a strong customer base for its products. There are seven major modes of entering an international market. In this chapter, we will take up each mode and discuss their advantages and disadvantages.

1. Exporting;- An item produced in a domestic market can be sold abroad. Storing and processing is mainly done in the supplying firm's home country. Export can increase the sales volume. When a firm receives canvassed items and exports them, it is called Passive Export. Alternately, if a strategic decision is taken to establish proper processes for organizing the export functions and for obtaining foreign sales, it is known as Active Export.

Advantages − Low investment; Less risks

Disadvantages − Unknown market; No control over foreign market; Lack of information about external environment

2. Licensing:- In this mode of entry, the manufacturer of the home country leases the right of intellectual properties, i.e., technology, copyrights, brand name, etc., to a manufacturer of a foreign country for a predetermined fee. The manufacturer that leases is known as the licensor and the manufacturer of the country that gets the license id known as the licensee.

Advantages − Low investment of licensor; Low financial risk of licensor; Licensor can investigate the foreign market; Licensee's investment in R&D is low; Licensee does not bear the risk of product failure; Any international location can be chosen to enjoy the advantages; No obligations of ownership, managerial decisions, investment etc.

Disadvantages − Limited opportunities for both parties involved; Both parties have to manage product quality and promotion; One party's dishonesty can affect the other; Chances of misunderstanding; Chances of trade secrets leakage of the licensor.

3. Franchising:- In this mode, an independent firm called the franchisee does the business using the name of another company called the franchisor. In franchising, the franchisee has to pay a fee or a fraction of profit to the franchisor. The franchisor provides the trademarks, operating process, product reputation and marketing, HR and operational support to the franchisee.

Example − The Entrepreneur magazine's top ranker in "The 2015 Franchise 500" is Hampton Hotels. It has 2,000 hotels in 16 countries.

Advantages − Low investment; Low risk; Franchisor understands market culture, customs and environment of the host country; Franchisor learns more from the experience of the franchisees; Franchisee gets the R&D and brand name with low cost; Franchisee has no risk of product failure.

Disadvantages − Franchising can be complicated at times; Difficult to control; Reduced market opportunities for both franchisee and franchisor; Responsibilities of managing product quality and product promotion for both; Leakage of trade secrets

4. Turnkey Project:- It is a special mode of carrying out international business. It is a contract under which a firm agrees – for a remuneration – to fully carry out the design, create, and equip the production facility and shift the project over to the purchaser when the facility is operational.

5. Mergers & Acquisitions:- In Mergers & Acquisitions, a home company may merge itself with a foreign company to enter an international business. Alternatively, the home company may buy a foreign company and acquire the foreign company's ownership and control. M&A offers quick access to international manufacturing facilities and marketing networks.

Advantages − Immediate ownership and control over the acquired firm's assets; Probability of earning more revenues; The host country may benefit by escaping optimum capacity level or overcapacity level

Disadvantages − Complex process and requires experts from both countries; No addition of capacity to the industry; Government restrictions on acquisition of local companies may disrupt business; Transfer of problems of the host country's to the acquired company.

6. Joint Venture:- When two or more firms join together to create a new business entity, it is called a joint venture. The uniqueness in a joint venture is its shared ownership. Environmental factors like social, technological, economic and political environments may encourage joint ventures.

Advantages − Joint ventures provide significant funds for major projects; Sharing of risks between or among partners; Provides skills, technology, expertise, marketing to both parties.

Disadvantages − Conflicts may develop; Delay in decision-making of one affects the other party and it may be costly; The venture may collapse due to the entry of competitors and the changes in the partner's strength; Slow decision-making due to the involvement of two or more decision-makers.

7. Wholly Owned Subsidiary:- Wholly Owned Subsidiary is a company whose common stock is fully owned by another company, known as the parent company. A wholly owned subsidiary may arise through acquisition or by a spin-off from the parent company.

Business Environments

There are numerous types of business environments, however the political, the cultural, and the economic environments are the prime ones. These factors influence the decision-making process of an international business firm. It is important to note that the types of environments we discuss here are interlinked; meaning one's state affects the others in varying dimensions.

The Political Factors: The political environment of a nation affects the legal aspects and government rules which a foreign firm has to experience and follow while doing business in that nation. There are definite legal rules and governance terms in every country in the world. A foreign company that operates within a particular country has to abide by the country's laws for the duration it operates there. Political environment can affect other environmental factors −

- Political decisions regarding economy can affect economic environment.
- Political decisions may affect the socio-cultural environment of a nation.

- Politicians may affect the rate of emergence of new technologies.
- Politicians can exert influence in the acceptance of emerging technologies.
- There are four major effects of political environment on business organizations −

1. Impact on Economy − The political conditions of a nation have a bearing on its economic status. For example, Democratic and Republican policies in the US are different and it influences various norms, such as taxes and government spending.
2. Changes in Regulation − Governments often alter their decisions related to business control. For example, accounting scandals in the beginning of the 21st century prompted the US SEC turn more mindful on the issues of corporate compliance. Sarbanes-Oxley compliance regulations (2002) were social reactions. The social environment demanded the public companies to be more responsible.
3. Political Stability − Political stability effects business operations of international companies. An aggressive takeover overthrowing the government could lead to a disordered environment, disrupting business operations. For example, Sri Lanka's civil war and Egypt and Syria disturbances were overwhelming for businesses operating there.
4. Mitigation of Risk − There are political risk insurance policies that can mitigate risk. Companies with international operations leverage such insurances to reduce their risk exposure.

The Economic Factors: Economic factors exert a huge impact on international business firms. The economic environment includes the factors that influence a country's attractiveness for international business firms.

1. Business firms seek predictable, risk-free, and stable mechanisms. Monetary systems that acknowledge the relative dependence of countries and their economies are good for a firm. If an economy fosters growth, stability, and fairness for prosperity, it has a positive effect on the growth of companies.
2. Inflation contributes hugely to a country's attractiveness. High rate of inflation increases the cost of borrowing and makes the revenue contract in domestic currency. It exposes the international firms to foreign-exchange risks.
3. Absolute purchasing power parity is also an important consideration. The ratio of exchange rate between two particular countries is identical to the ratio of the price levels. The law of one price states that the real price of a product is same across all nations.
4. Relative purchasing power parity (PPP) is valuable for foreign firms. It asks how much money is needed to buy the same goods and services in two particular countries. PPP rates prompt international comparisons of income.

The Cultural Factors

Cultural environments include educational, religious, family, and social systems within the marketing system. Knowledge of foreign culture is important for international firms. Marketers who ignore cultural differences risk failure.

1. Language − There are nearly 3,000 languages in the world. Language differences are important in designing advertising campaigns and product labels. If a country has several languages, it may be problematic.

2. Colors − It is important to know how people associate with colors. For example, purple is unacceptable in Hispanic nations because it is associated with death.
3. Customs and Taboos − It is important for marketers to know the customs and taboos to learn what is acceptable and what is not for the marketing programs.
4. Values − Values stem from moral or religious beliefs and are acquired through experiences. For example, in India, the Hindus don't consume beef, and fast-food restaurants such as McDonald's and Burger King need to modify the offerings.
5. Aesthetics − There are differences in aesthetics in different cultures. Americans like suntans, the Japanese do not.
6. Time − Punctuality and deadlines are routine business practices in the U.S. However, Middle East and Latin American people are far less bound by time constraints.
7. Religious Beliefs − Religion can affect a product's labelling, designs, and items purchased. It also affects the consumers' values.

Cultural Differences Example

- Ireland's evening meal is called tea, not dinner.
- If you nod in Bulgaria, it means "no" and moving the head from one side to the other means "yes".
- Pepsodent toothpaste did not sell well in Southeast Asia, as it promised white teeth. Black or yellow teeth are symbols of prestige there.

<u>Social Environment Factors</u>

The social environment and the cultural environment in which a firm operates can be a major factor in the success or failure of the firm. The social environment comprises of many dynamic factors such as social traditions, cultural influences, values and beliefs prevailing in the society, social stratification, etc.
international companies always study the cultural and social environment of a country before entering the market. It is important that your goods and services are in tandem with the social environment of the country. Otherwise, the company could face losses. Some important factors that affect the cultural and social environment in a country are as follows,
1.Social concerns that plague society, such as pollution levels, corruption amongst government officials, excessive consumerism, ill effects of mass media consumption, etc.
2.The social values and social attitudes of the businesses and the citizens. This includes the rituals and practices of the people and can also include religious beliefs. Changing lifestyle patterns also effects the expectations consumers have for the businesses.
3.Family values, family structure and the role that family occupies in society has a great impact on the social environment
4.The position and state of women and children in society. Even the role that women play in society will be a factor.
5.Education and literacy levels of the population are another factor. This also includes consumer awareness and consumer protection

<u>Example</u>

1.In Thailand, Helene Curtis switched to black shampoo because Thai women felt that it made their hair look glossier.
2.Nestle, a Swiss multinational company, today brews more than forty varieties of instant coffee to satisfy different national tastes.
3. The differences in languages sometimes pose a serious problem, even necessitating a change in the brand name. Preett was, perhaps, a good brand name in India, but it did not suit in the overseas market; and hence it was appropriate to adopt ‗Prestige‘ for the overseas markets.
4. Chevrolet‘s brand name ‗Nova‘ in Spanish means ―it doesn‘t go.
5. The values and beliefs associated with colour vary significantly between different cultures. Blue, considered feminine and warm in Holland, is regarded as masculine and cold in Sweden. Green is a favourite colour in the Muslim world; but in Malaysia, it is associated with illness. White indicates death and mourning in China and Korea; but in some countries, it expresses happiness and is the colour of the wedding dress of the bride. Red is a popular colour in the communist countries; but many African countries have a national distaste for red colour

Natural Environment Forces

Geographical and ecological factors, such as natural resource endowments, weather and climatic conditions, topographical factors, locational aspects in the global context, port facilities, etc., are all relevant to business.
Differences in geographical conditions between markets may sometimes call for changes in the marketing mix. Geographical and ecological factors also influence the location of certain industries. For example, industries with high material index tend to be located near the raw material sources.
Climatic and weather conditions affect the location of certain industries like the cotton textile industry.
Topographical factors may, affect the demand pattern. For example, in hilly areas with a difficult terrain, jeeps may be in greater demand than cars.
Ecological factors have recently assumed great importance. The depletion of natural resources, environmental pollution and the disturbance of the ecological balance has caused great concern.