International Business Management

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About the Tutorial

International Business is a subject that teaches how to nurture a local business and make it global. It explains the business practices and strategies required to succeed in international markets.

In this tutorial, it has been our endeavor to cover the multidimensional aspects of International Business in an easy-to-understand manner.

Audience

This tutorial is specially designed for the students of Management, Commerce, Human Resources, Marketing, and Business Law.

Prerequisites

To understand this tutorial, it is advisable to have a foundation level knowledge of business and management studies. However, general students who wish to get a brief overview International business may find it quite useful.

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Part 1: The International Business Ecosphere

1. IB – INTRODUCTION

A Global Village

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.

Figure: A Global Village without Boundaries

For example, the faucet we see in our bathroom may be from Italy. The towels we use may be a Brazilian product. The automobile we drive may be a Japanese or German brand. The air conditioners we use may be from France. It is almost impossible to stay isolated and be self-sufficient in this day and age. That is why multinational companies are a reality.

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.

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.

Note: In this tutorial, we are primarily focusing towards business operations of the individual firm.

Internationalization of Business

Let's try to explore the reasons why a business would like to go global. It is important to note that there are many challenges in the path of internationalization, but we'll focus on the positive attributes of the process for the time-being.

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

- **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.
- **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.
- **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.
- **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.
- **Discourage Local Competitors**: Acquiring a new market may mean discouraging other players from getting into the same business-space as one company is in.

Advantages of Internationalization

There are multiple advantages of going international. However, the most striking and impactful ones are the following four.

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. Hence, a business house having global presence need not dump the unsold stock of products at deep discounts in the local market. It can search for some new markets where the products sell at a higher price.

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.

Less Competition

Competition can be a local phenomenon. 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.

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.

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.

Globalization

Although globalization and internationalization are used in the same context, there are some major differences.

- Globalization is a much larger process and often includes the assimilation of the markets as a whole. Moreover, when we talk about globalization, we take up the cultural context as well.

- 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 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.

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

Factors Causing Globalization of Businesses

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.

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.

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.

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.

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.

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.

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.

2. IB – 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.

We will take up the most important factors and see how they affect the operational process of a business.

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.

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:

- **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.

- **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.

- **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.
- **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.

Note: You can check The Index of Economic Freedom. It ranks and compares the countries depending on how politics impacts business-decisions in those locations.

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.

- 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.
- 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.
- 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.
- 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.

- **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.
- **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.
- **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.
- **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.

- **Aesthetics** – There are differences in aesthetics in different cultures. Americans like suntans, the Japanese do not.
- **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.
- **Religious Beliefs** – Religion can affect a product's labelling, designs, and items purchased. It also affects the consumers' values.

Cultural Differences

- 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.

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