

Unit - 1

International Business –Definition – Internationalizing business-Advantages – factors causing globalization of business- international business environment – country attractiveness – Political, economic and cultural environment – Protection Vs liberalization of global business environment

1. International Business:

International Business: Exchange of Goods & Services, Resources, Knowledge, & Skills, among individuals & businesses in two or more countries.

“International business is defined as all business transactions that involve two or more countries” – Daniels and Radebaugh

Nature of International Business

- Involvement of commercial activity
- Involvement of two countries
- Many bases
- Language difference
- Comparative more physical risk
- Surrounded with political risk
- Proactive / Reactive
- Government Intervention
- Payment in foreign currency
- Differs from Domestic Business

Scope of International Business

- International Marketing
- International Finance and Investments
- Foreign Exchange
- Global HR

Features of International Business

- Large scale operations
- Integration of economies
- Dominated by developed countries and MNCs
- Benefits to participating countries
- Keen competition
- Special role of science and technology
- International restrictions

Approaches of International Business

1) Ethnocentric: Under this approach, target market is own country, Excessive production will export due to change in customer taste, preferences. **Home country orientation.**

2) Polycentric: Under this approach, the companies customize the marketing mix to meet the taste, performance and needs of the customers of each international market. **Host country orientation.**

3) Regiocentric: Under this approach, the company operating successfully in a foreign country thinks of exporting other neighbouring countries of the host country. **Sees similarities and differences in world region.**

- At this stage, the concerned subsidiary considers the regional environment (such as laws, culture, policies etc.) for formulating the policies & strategies.

4) Geocentric: Under this approach, the company analyses the tastes, preference and needs of the customers in all foreign markets and then adopts a standardized marketing mix for all the foreign markets.

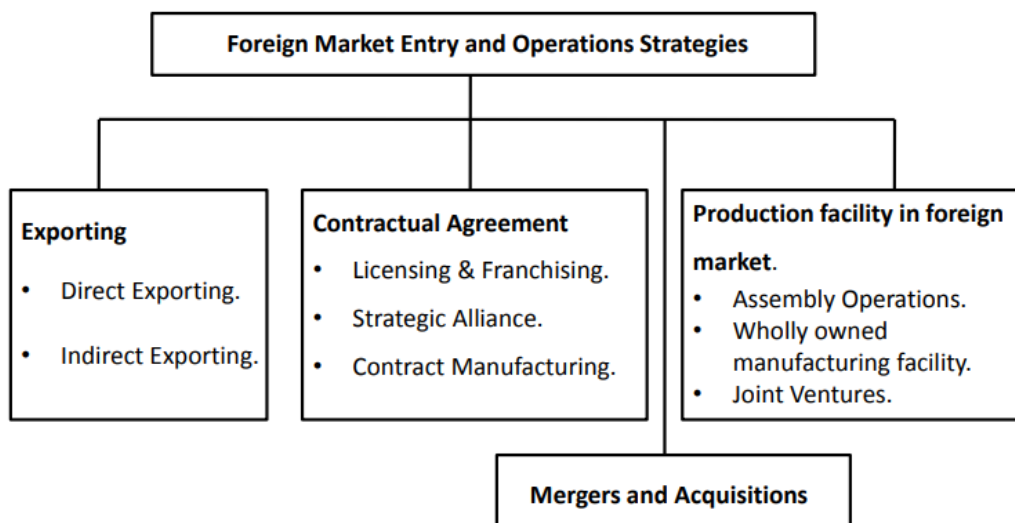
Importance of International Business

- Earn foreign exchange
- Optimum utilization of resources
- Achieve its objectives
- To spread business risks
- Improve organization's efficiency
- Get benefits from Government
- Expand and diversify
- Increase competitive capacity

Problems of International Business

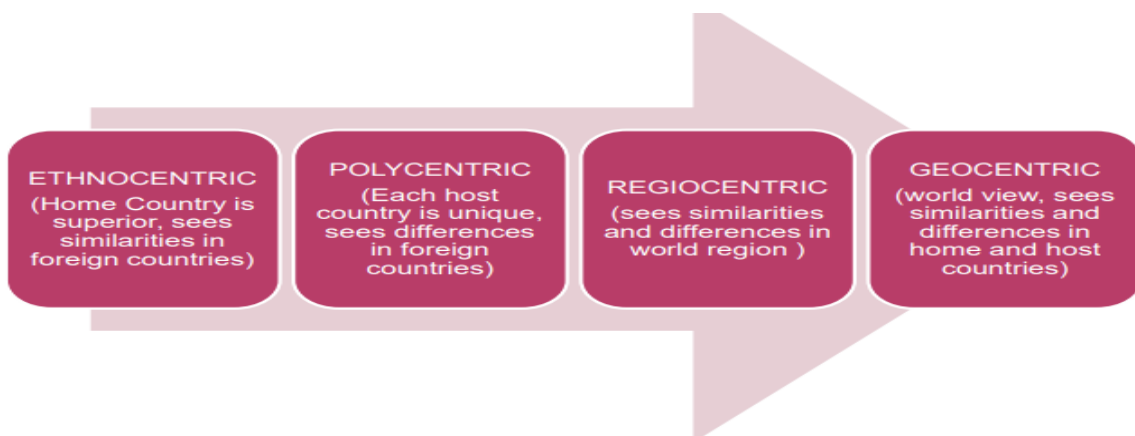
- Political factors
- High foreign investments and high cost
- Exchange instability
- Entry requirements
- Tariffs, quota etc.
- Corruption and bureaucracy
- Technological policy
- Quality Management

International Business Entry Strategies/ Modes of International Business/ internationalizing business



Other Modes: a) Piggybacking b) Turnkey Projects c) Green Field investments

Approaches of International Business



2. Internationalizing business

Internationalization: "As the process of increasing involvement in international operations" – Prof Welch

Internationalization is the designing of the product in such a way that it will meet the needs of users in many countries or can be easily adapted to do so.

Internationalisation is the process through which firms expand the business outside the national (domestic) country.

Reasons of internationalization

- Domestic Market Saturated
- Domestic Market Small
- Slow Growth of domestic market
- Suppliers follow their customers internationally
- Competitive Pressures
- Attractive cost structures globally
- Growth rate and potential
- Compete successfully in domestic market

Internationalizing business

- 1) Direct Export
- 2) Indirect Export
- 3) Foreign Direct Investment
- 4) Contractual agreement
- 5) Mergers and Acquisition
- 6) Production facility in foreign market

Stages of Internationalization

1) STAGE 1 IS DOMESTIC OPERATION: The firm's market is exclusively domestic.' Most international companies have their' origin as domestic companies. These companies focus on domestic operations only.

Example: Patanjali have currently its major' operations in India only.

2) STAGE 2 IS EXPORT OPERATION: The firm expands its market by engaging into export operations and offering the domestic products to other countries also, but retains production facilities within domestic borders.

Example: Indian firms exporting textiles,' jute, spices, nuts, rice all around the world.

3) STAGE 3:-SUBSIDIARIES OR JOINT VENTURES:

The firm physically moves some of its' operations out of the home country. There is a mutual cost, profit sharing and' management in such method.

Example: A joint venture between Maruti' (Indian Company) and Suzuki (Japanese Company).

4) STAGE 4:- MULTINATIONAL OPERATIONS:

The firm becomes the fully fledged' multinational co.[MNC] with the assembly of production facilities in several countries & regions of the world. Some decentralization of decision making is common but many personnel decisions are still made at corporate level in headquarters.

Example: Mc Donalds is a MNC operating' worldwide.

5) STAGE 5:- TRANSNATIONAL OPERATIONS: In this the firms that reach this particular' stage are often called transnational companies because they achieve both global efficiency and local responsiveness. They use global market and resources for their functioning.

Example: Coca-Cola, Nestle'

Advantages of Internationalization

- High living standards
- Wider Market
- Large Scale Economies
- Cultural Transformation
- Optimum utilisation of world resources
- Economic growth of the world
- Reduced Risks
- Division of labour and specialisation
- Increases Socio Economic Welfare

Disadvantages of Internationalization

- Political Factors
- Huge Foreign Indebtedness
- Exchange Instability
- Entry Requirements
- Tariffs , Quotas , Trade Barriers
- Corruption
- Technological Pirating
- Bureaucratic Practices of Government
- Quality Maintenance

3. Globalization of business

Globalization refers to the free cross-border movement of goods, services, capital, information, and people.

Globalization refers to the intensification of cross-national economic, political, cultural, social, and technological interactions that leads to the establishment of transnational structures and the integration of economic, political, and social processes on a global scale.

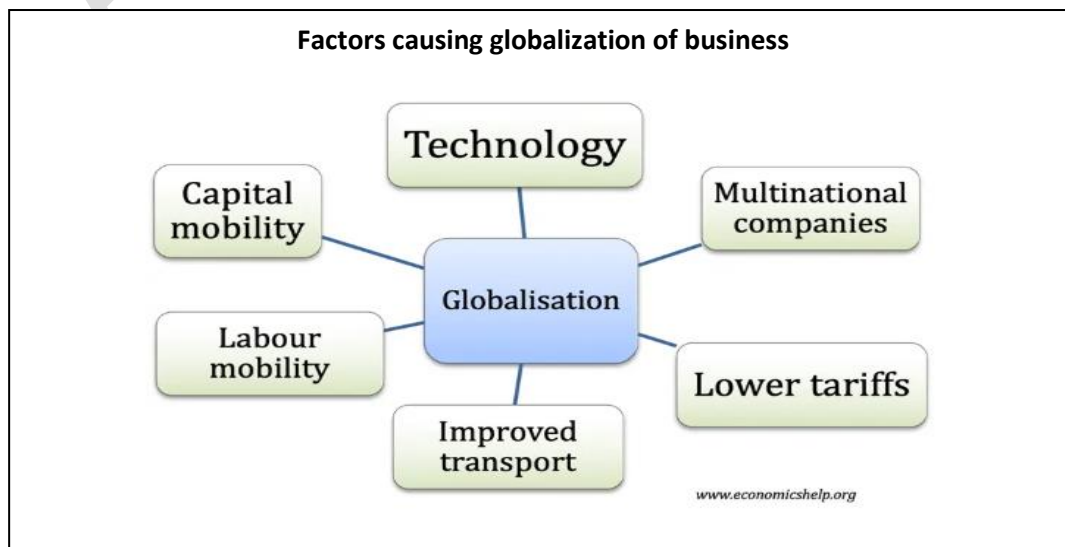
“Globalization is the process of integration and convergence of economic, financial, cultural and political systems across the world”. In simple globalization means integrating the Indian economy with world economy.

“Globalization refers to the process of integration of the world into one huge market”

The important components of globalization are

- **globalization of markets**
- **globalization of production**
- **Globalization of investment**
- **Globalization of Technology**

Globalization is the tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, thereby increasing the interconnection of the world.

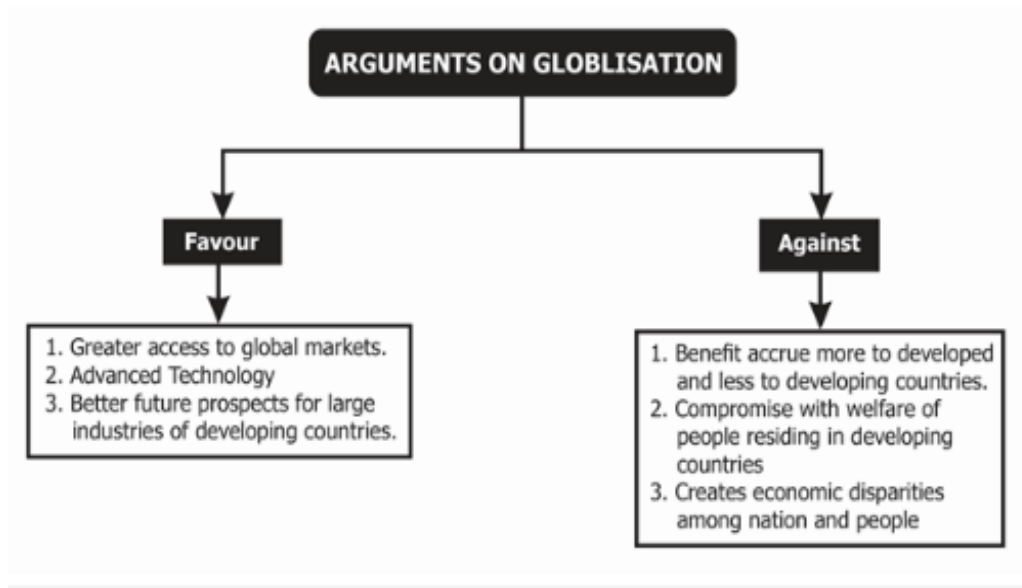


Factors causing globalization of business

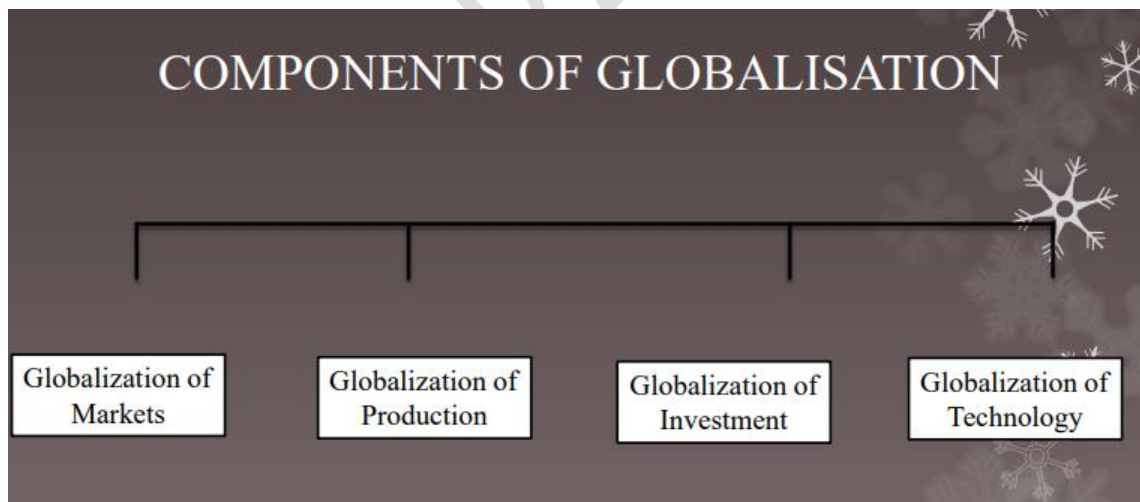
- 1) **Improved transport**, making global travel easier. For example, there has been a rapid growth in air travel, enabling greater movement of people and goods across the globe.
- 2) **Containerisation**. From 1970, there was a rapid adoption of the steel transport container. This reduced the costs of inter-modal transport, making trade cheaper and more efficient
- 3) **Improved technology** which makes it easier to communicate and share information around the world. E.g. internet. For example, to work on improvements on this website, I will go to a global online community, like elance.com. There, people from any country can bid for the right to provide a service. It means that I can often find people to do a job relatively cheaply because labour costs are relatively lower in the Indian sub-continent.
- 4) **Growth of multinational companies** with a global presence in many different economies.
- 5) **Growth of [global trading blocks](#)** which have reduced national barriers. (e.g. European Union, NAFTA, ASEAN)
- 6) **Reduced tariff barriers** which encourage global trade. Often this has occurred through the support of the [WTO](#).
- 7) **Firms exploiting gains from economies of scale** to gain increased specialisation. This is an essential feature of [new trade theory](#).
- 8) **Growth of global media**.
- 9) **Global trade cycle**. Economic growth is global in nature. This means countries are increasingly interconnected. (e.g. recession in one country affects global trade and invariably causes an economic downturn in major trading partners.)
- 10) **Financial system increasingly global in nature**. When US banks suffered losses due to the sub-prime mortgage crisis, it affected all major banks in other countries who had bought financial derivatives from US banks and mortgage companies.
- 11) **Improved mobility of capital**. In the past few decades, there has been a general reduction in capital barriers, making it easier for capital to flow between different economies. This has increased the ability for firms to receive finance. It has also increased the global interconnectedness of global financial markets.
- 12) **Increased [mobility of labour](#)**. People are more willing to move between different countries in search for work. Global trade [remittances](#) now play a large role in transfers from developed countries to developing countries.
- 13) **Internet**. This enables firms to communicate on a global level; this may overcome managerial diseconomies of scale. The firm may be able to get cheaper supplies by dealing with a wider choice of firms. Consumers are also able to order more goods online E.G. Dell Computers takes orders online and can meet customer specification.

Types of globalization

- a) Financial globalization
- b) Economic globalization
- c) Technological globalization
- d) Political globalization
- e) Cultural globalization



Globalization: “the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology” – International Monetary Fund



Globalization of Markets

Globalization of markets refers to the process of integrating and merging of the distinct world markets into a single market.

EXAMPLE: Coca-Cola, Pepsi, McDonald’s burgers, Levis Jeans etc.,

Reasons for globalization of markets

- Large scale industrialization enabled mass production Risk reduction by diversification
- Increase profits and achieve goals
- Adverse business environment in home country
- Demand for their products in foreign markets
- Failure of domestic companies to cater the needs of customers

Features of globalization of markets

- Size of the company need not be too large
- Distinction of national markets still prevail
- Most of the foreign markets are markets for non-consumer goods

Globalization of production

Globalization of production is locating the manufacturing facilities in a number of locations around the globe.

EXAMPLE: Jet airlines Boeing 777 and Swan opticals

Globalization of production reasons

- Impositions of imports by the foreign country
- Availability of high quality raw materials and components
- Availability of inputs at low cost
- Skilled human resource at low cost
- Liberal labour laws
- To reduce cost of transport
- To cater to varying tastes of customers

Globalization of Investment

Globalization of investment refers to investment of capital by a global company in any part of the world.

Globalization of investment

- Increase in volume of global trade
- Limitations of exporting and importing
- Liberalization
- Avoid restrictions

Modes of globalization of investment

- Acquisition
- Joint ventures
- Long term loans
- Issuing equity, shares, debentures, bonds'
- Global deposit receipts

Globalization of technology

- Latest technology and distinctive competencies
- Technological collaboration
- Usage of technology by paying royalty

Advantages of globalization

- Free flow of capital, technology
- Industrialization
- Production facilities throughout the world
- Increase in production and consumption
- Lower prices and high quality
- Jobs and Incomes
- Higher standard of living
- Balanced Human development
- Welfare and prosperity

Disadvantages of globalization

- Kills domestic business
- Exploits human resource
- Unemployment and underemployment
- Widening gap between rich and poor
- Transfer of natural resources
- National sovereignty at stake
- Commercial and political colonialism Versatile Business

4. Country attractiveness

Political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business.

The political, economic, and legal environment of a country clearly influences the attractiveness of that country as a market and/or investment site.

A country attractiveness assessment is based on three dimensions

- 1) **Market opportunities**
- 2) **Industry opportunities**
- 3) **Country risks (many organizations publish country assessment results based on various economic/political/social factors)**

Dimensions of country attractiveness**1) Market opportunities**

Market opportunities assessment measures the potential demand in the country for a firm's products or services based on: • **Market size** • **Growth** • **Quality of demand and potential demand in a country.**

2) Industry opportunities

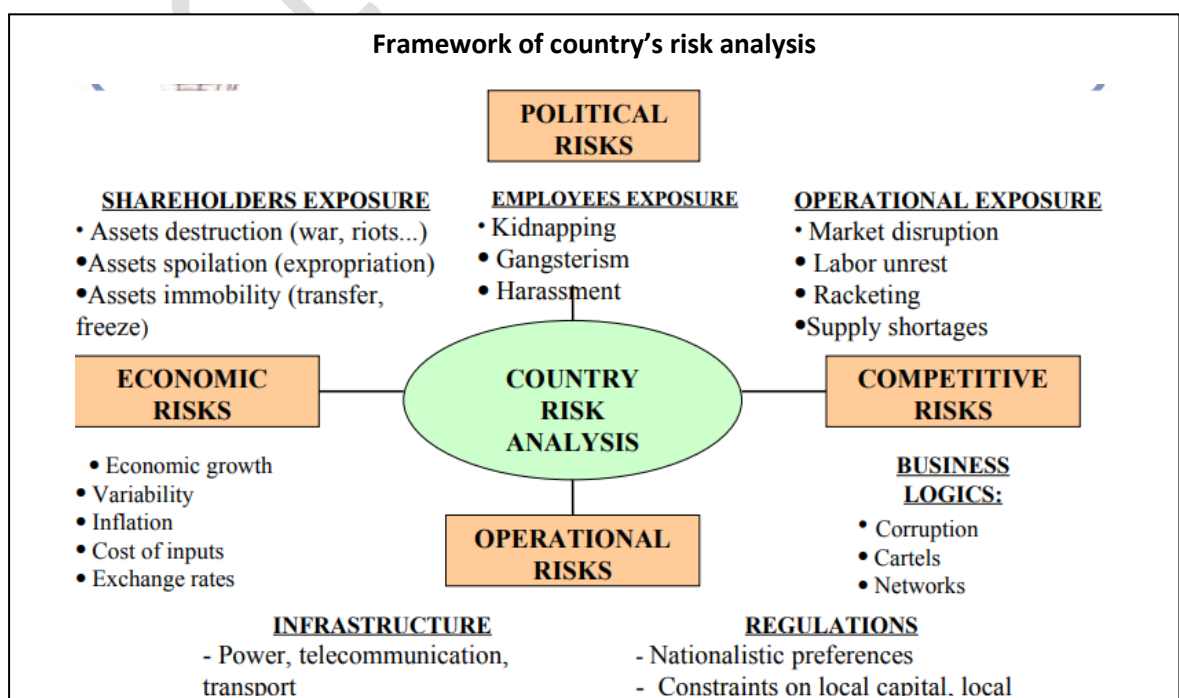
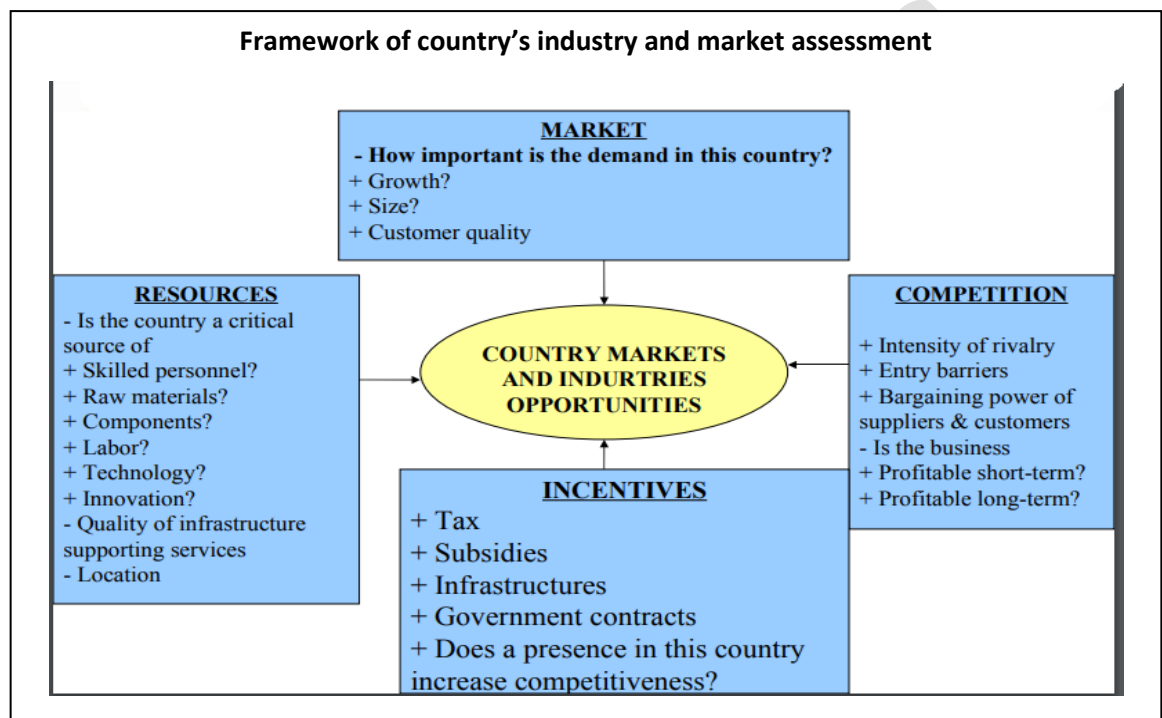
Industry opportunities assessment determines profitability potential of a company's presence in a country given the following factors

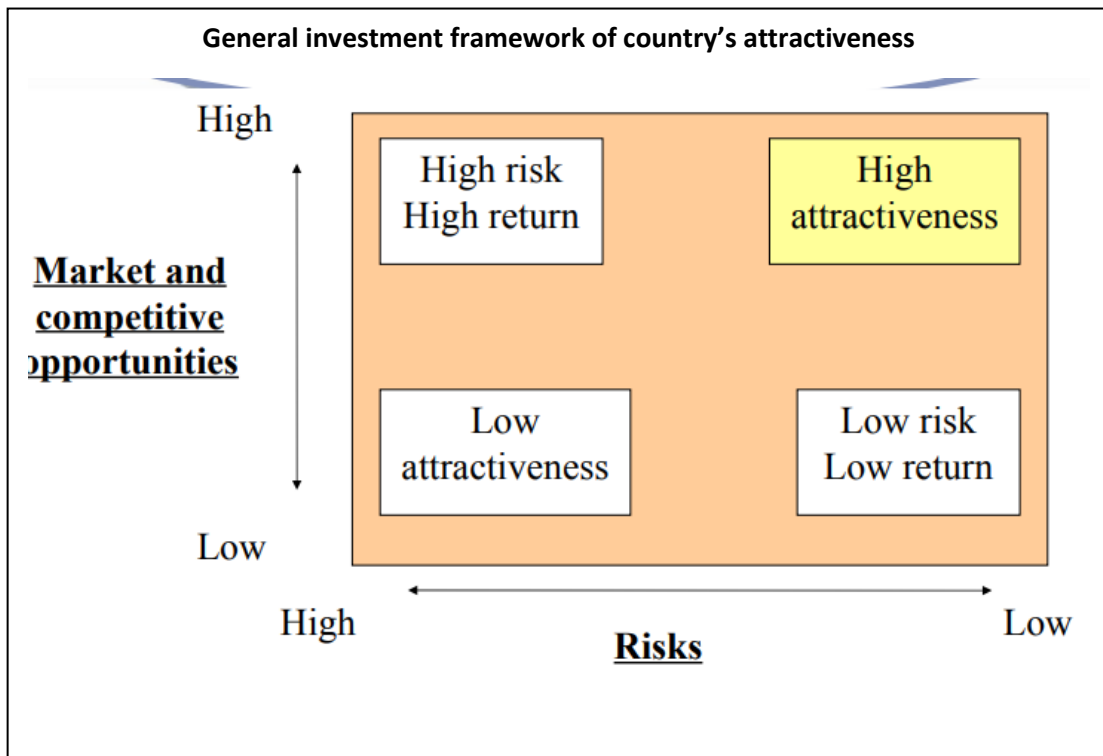
- : • Quality of industry competitive structure (Porter's five-force Industry Analysis Framework)
• Resource availability (Porter's diamond framework)

3) Country risk

• **Political risks:** Political risks are probable disruptions owing to internal or external events or regulations resulting from political action of governments or societal crisis and unrest.

- **Economic risks:** Economic risks expose business performance to the extent that the economic business drivers can vary and therefore put profitability at stake.
- **Competitive risks:** Competitive risks are related to non-economic distortion of the competitive context owing to cartels and networks as well as corrupt practices. The competitive battlefield is not even and investors who base their competitive advantage on product quality and economics are at disadvantage.
- **Operational risks:** Operational risks are those that directly affect the bottom line, either because government regulations and bureaucracies add costly taxation or constraints to foreign investors or because the infrastructure is not reliable





5. International Business Environment

Motivating or provoking factors to go international

- (a) **Pull factors or Proactive reason:** Attractiveness of the foreign market, including relative profitability and growth prospects.
- (b) **Push factors or Reactive reasons:** Compulsion of the domestic market, like saturation of the market, prompting to internationalize.

An overview of business environment

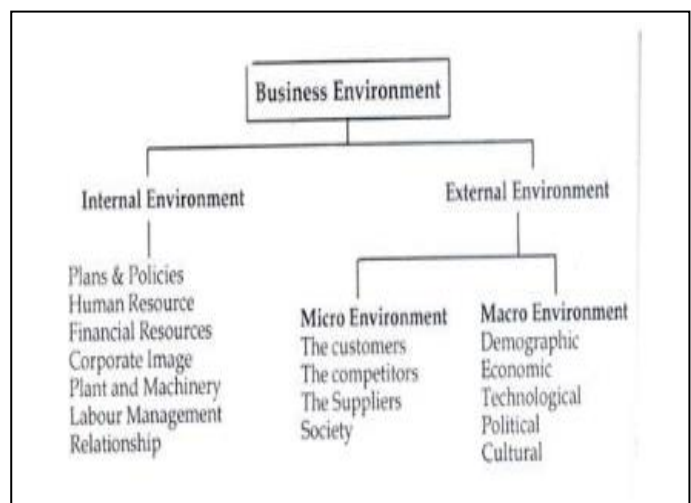
SWOT analysis is one of the first steps in the strategic management process. Business dynamics is a dependent factor. Hence the importance of environmental analysis paid more attention in business.

Business Environment

- (1) Internal Environment
- (2) External environment it includes
 - (a) Micro/Task/ Operating environment
 - (b) Macro/ General/ Remote environment

Environment of International Business

- (a) Domestic environment
- (b) Foreign environment
- (c) Global environment



6. Protection Versus Liberalization of business

Basis	Protection	Liberalization
Meaning	Protectionism is the economic policy of restraining trade between states through methods such as tariff, quotas and other measure	The removal of restrictions on the free trade of goods between countries
Techniques	Tariffs, quotas, subsidies, local content requirement, etc	Removal of trade barriers
Reasons / motive	encourages domestic industry	motive Is to encourage domestic industry Encourages the International business
Compliance to international rules and regulations	Domestic Rules and Regulations have to be complied with	Consider the rules and regulations of foreign country with which it is trading
Pre – requirement	requirement Considering the culture of domestic industry and economy	Carefully observe and understand a country's culture before trading with i
Advantages	Protects Domestic industry, encourages employment and growth opportunities in home country	It can help to lower prices and wide range of quality goods and services
Disadvantages	It reduces overall volume of world trade, low global income, employment opportunity, and less variety of goods	Unsustainable utilization of resources, affects the domestic industries

Protectionism: is a policy of protecting the domestic businesses from foreign competition by applying tariffs, import quotas, or many types of other restrictions attached to the imports of foreign competitors' goods and services.

There are many protectionist policies in place in many nations despite the fact that there is a popular consensus that the world economy, as a whole, benefits from free trade.

- **Government-levied tariffs** – The best form of protectionist measure is the government-levied tariffs. The common practice is raising the price of the imported products so that they cost more and hence become less attractive than the domestic products. There are many believers that protectionism is a helpful policy for the emergent industries in the developing nations.
- **Import quotas** – Import quotas are the other forms of protectionism. These quotas limit the amount of products imported into a country. This is considered to be a more effective strategy than protective tariffs. Protective tariffs do not always repel the consumers who are ready to pay higher prices for imported goods.
- **Mercantilism** – Wars and recessions are the major reasons behind protectionism. On the other hand, peace and economic prosperity encourage free trade. In 17th and 18th centuries, the European monarchies used to rely heavily on protectionist

policies. This was due to their aim to increase trade and improve the domestic economies. These (currently discredited) policies are called mercantilism.

- **Reciprocal trade agreements** – Reciprocal trade agreements limit the protectionist measures in lieu of eliminating them fully. However, protectionism still exists and is heard when economic hardships or joblessness is aggravated by foreign competition.

Currently, protectionism is in a unique form. Economists term the form as **administered protection**. Most rich nations have fair trade laws. The announced purpose of Free Trade Laws is twofold –

- First is to make sure that foreign countries do not subsidize exports so that market incentives are not distorted and hence efficient allocation of activity among the countries is not destroyed.
- The second purpose is to assure that international companies do not dump their exports in an aggressive manner. These mechanisms are meant to augment free trade.

Liberalization: is the process of relaxation from government control. It is a very important economic term. Technically, it means the reductions in applied restrictions of the government on international trade and capital. Liberalization is also used in tandem with another term – Deregulation.

Deregulation is the disappearance of state restrictions on both domestic and international business. However, in principle, the two terms are distinct because liberalized markets are often subject to government regulations for various reasons, such as consumer protection. But in practice, both terms generally refer to the removal of state intervention in markets.

Arguments, Counterarguments, and Discussions

The advantages of liberalization and deregulation are questioned in many ways. Both of these phenomena are related with the “Washington consensus.” The consensus is a set of market-related policy prescriptions supported by neoliberals for economic growth of developing countries. Critics, however, argue that the policies are used to exploit poorer workers by corporations from rich countries.

Activists and scholars alike somewhat agree that markets are, in reality, neither truly free nor fair. For example, there are subsidies paid by the government to cotton producers in the United States and the European Union. This, in reality, artificially drives the prices down, putting African cotton farmers in an uncomfortable state.

Critics note that the issue is not about the freeing of markets per se but, rather, that the companies of wealthier countries are manipulating the term to their own benefits at large.

Liberalization, Privatization, and Globalization

Due to close resemblance and similar attributes, the term LPG (Liberalization, Privatization, and Globalization) is generally used nowadays to describe the phenomena of freeing up of markets.

Although the three terms are distinct and have their own attributes, it is particularly helpful to describe the contemporary and new market conditions of 21st century through the term LPG. In fact, liberalization is the gateway to globalizations and hence, when we talk

about the benefits of globalization, it is always a manifestation of the process of liberalization.

It is impossible to consider the business aspects without having a global view in many of the scenarios and hence, LPG is a way to deal with the latest marketing and operational trends in international marketing.

Revolutionary Economic Trends

Liberalization and deregulation stimulated the epic run of three major areas of business –

- International trade grew at an average rate of 6% annually between 1948 and 1997.
- FDI was impacted too, which saw the stocks and inflows exceed the rise in world trade.
- Foreign exchange markets achieved an average daily turnover reaching trillions of dollars.

Liberalization and deregulation contributed heavily to the globalization of the world economy.

Advantages of International Business

- Maximum utilization of resources
- Stability in prices
- Economic growth
- Economies of scale
- Encouragement to industrialization
- Earning of foreign exchange
- Establishment of international cooperation
- Less cost due to the use of modern techniques
- Development of Transport and communication
- Higher standard of living
- Employment
- International brotherhood
- Greater competition
- Up gradation of technology
- Security from famine ☐ Escape from domestic competition

Disadvantages of International Business

- Increased Costs
- Foreign regulation and standards
- Delay in Payments
- Complex Org. Structure
- Exhaustion of Natural Resources
- Cultural Differences
- Market Competition in Host Country
- National Controls
- Lack of home country support
- Dependence
- Loss to agricultural countries