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An Overview of International Business

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Abstract:

International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies and organizations. International business is the procedure of spotlighting on the resources of the globe and objectives of the organizations on worldwide business opportunities and threats. We can also articulate that International Business is all about business dealings - private & governmental – that engross two or more countries. Private companies assume such transactions for profit; governments may or may not do the same in their transactions. It involves performance of business activities premeditated to plan, price, promote and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. This actually minor difference "in more than one nation" accounts for the complexity and diversity found in international marketing operations even though the impressions of marketing remain basically the same for both household & international business.

Key words: International, Business, global, companies, markets, law,

1. Introduction

With the globalization of the world economy, there has been a concomitant rise in the number of companies that operate globally. Though international business as a concept has been around since the time of the East India Company and continued into the early decades of the 20th century, there was a lull in the international expansion of companies because of the Two World Wars. After that, there was a hesitant move towards internationalizing the operations of multinational companies.

What really provided a fillip to the global expansion of companies was the Chicago School of Economic Thought propelled by the legendary economist, Milton Friedman, which championed neoliberal globalization. This ideology, which started in the early 1970s gradually, became a

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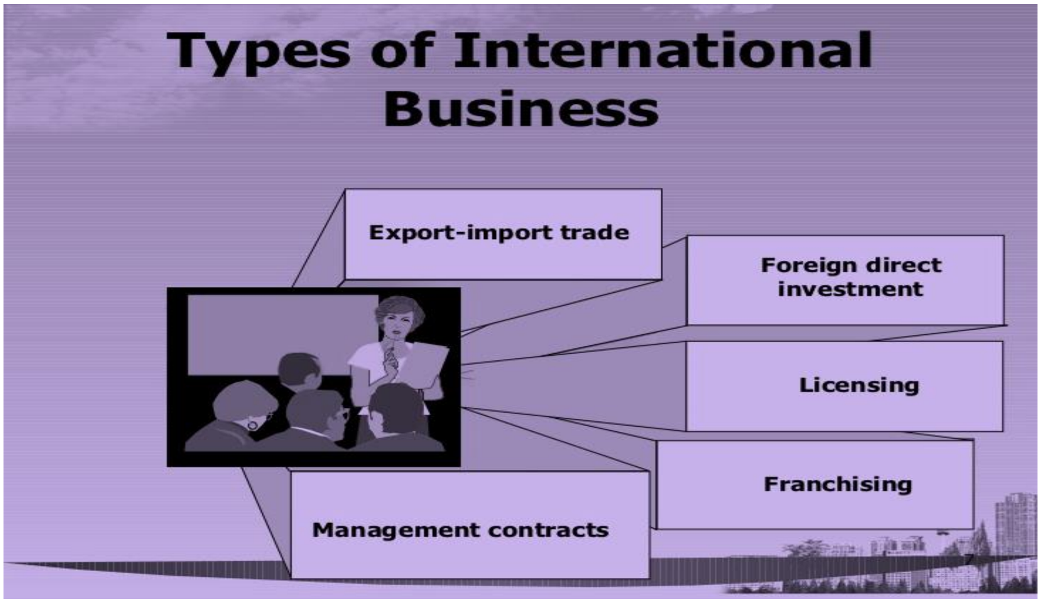
major force to reckon with in the 1980s and became the norm in the 1990s. The result of all this was the frenzied expansion of global companies across the world.

Thus, **international businesses grew in scope and size to the point where at the moment; the global economy is dominated by multinationals from all countries in the world**. What was primarily a phenomenon of western corporations has now expanded to include companies from the East (from countries like India and China). This module examines the phenomenon of international businesses from different aspects like the characteristics of international business, their effect on the local, target economies, and the ways and means with which they would have to operate and succeed in the global competition for ideas and profits.

Above all, international businesses have to ensure that they blend the global outlook and the local adaptation resulting in a "Glocal" phenomenon wherein they would have to think global and act local. Further, **international businesses need to ensure that they do not fall afoul of local laws and at the same time repatriate profits back to their home countries**. Apart from this, the questions of employability and employment conditions that dictate the operations of global businesses have to be taken into consideration as well.

Fig. 1 Meaning of International Business.

Fig. 2 Types of International Business.



2. Evolution of International Business

The business across the borders of the countries had been carried on since times immemorial. But, the business had been limited to the international trade until the recent past. The post-World War If period witnessed an unexpected expansion of national companies into international or multinational companies. The post 1990s period has given greater fillip to international business. In fact, the term international business was not in existence before two decades. The term international business has emerged from the term international marketing, which in turn, emerged from the term 'export marketing'. International Trade to International Marketing: Originally, the producers used to export their products to the nearby countries and gradually extended the exports to far-off countries. Gradually, the companies extended the operations beyond trade. *For example,* India used to export raw cotton, raw jute and iron ore during the early 1900s. The massive industrialization in the country enabled us to export jute products, cotton garments and steel during 1960s. India, during 1980s could create markets for its products, in addition to mere exporting. The export marketing efforts include creation of demand for Indian products like textiles, electronics, leather products, tea, coffee etc., arranging for appropriate distribution channels, attractive package, product development, pricing etc. This process is true not only with India, but also with almost all developed and developing economies. International Marketing to International Business: The multinational companies which were producing the products in their home countries and marketing them in various foreign countries before 1980s started locating their plants and other manufacturing facilities in foreign/host countries. Later, they started producing in one foreign country and marketing in other foreign countries. For example, Uni Lever established its subsidiary company in India, *i.e.*, Hindustan

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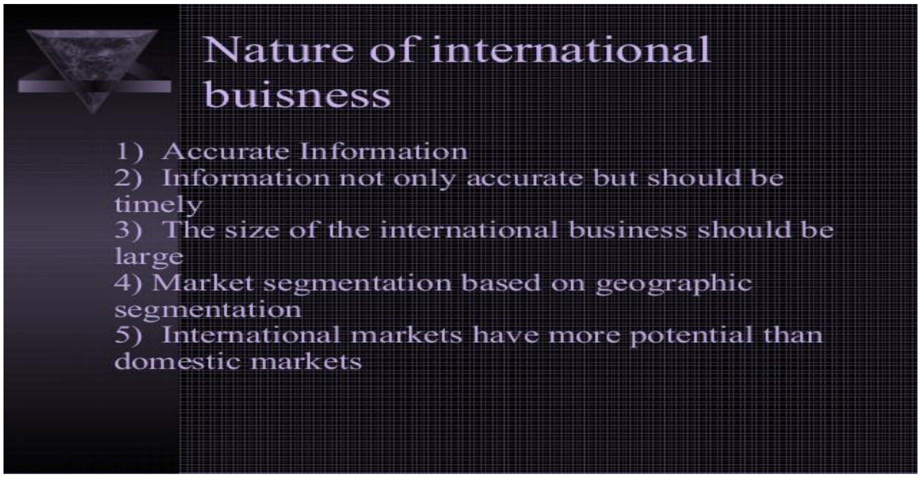
Lever Limited (HLL). HLL produces its products in India and markets them in Bangladesh, Sri Lanka, Nepal etc. Thus, the scope of the international trade is expanded into international marketing and international marketing is expanded into international business.

Fig. 3 Nature of International Business



3. Scope of International Business

Scope of International Business

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

3.1 Objectives of International Business

In operating internationally, a company should consider its mission (what the company will seek to do and become over the long run), its objectives [specific performance targets to fulfill its mission] and strategy (the means to fulfill its objectives). There are four major operating objectives that may influence companies to engage in international business. These are:

• To achieve more sales;
• To acquire resources;
• To diversify their sources of sales and supplies & minimize risk;
• To counter – attack foreign competition.

3.2 Importance of International Business

- Earn Foreign Exchange
- Optimum utilization of resources
- Achieve its objectives
- To spread business risks
- Improve Organization's Efficiency
- Getting benefits from Government
- Expand and diversity
- Increase competitive capacity

3.3 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

4. Environment to facilitate international business

The international business has been growing recently at a faster pace than it did in earlier years and also at a faster pace than the domestic business has been recently. For example, global merchandise exports grew faster than global production in eleven of the twelve years in the 1984-1995 periods. Further, the proportion of world output accounted for by foreign owned facilities has been growing substantially. The above trends can be attributed to the below stated inter-related environmental factors:

• Rapid expansion in technology.
• Liberalization of cross – border movements.
• Development of supporting institutional arrangements.
• Increase in global competition.

Fig. 4 International Business Vs Domestic Business

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5. Emerging Markets and International Business:

International Businesses and the Opening up of Emerging Economies

The previous articles in this module have discussed the contours of international business and the key drivers of the phenomenon. **This article discusses how international businesses are affected by the rise of the emerging markets especially the BRICS (Brazil, Russia, India, China, and South Africa) and the next "Breakout Nations" from the second tier of the emerging markets**. The point to note is that ever since the emerging markets opened up their economies and liberalized their procedures, international businesses have found a readymade market for themselves in which they can operate in, make, and sell goods. Often, it is the case that emerging markets provide the international businesses with the right opportunities to expand and grow further. When considered against the backdrop of falling growth rates in the West, the western multinationals could not have asked for more with countries like China and India opening up like never before. For instance, the recent decision by the government to push for FDI (Foreign Direct Investment) in most sectors is a step in the direction of benefit to western multinationals.

Growth of International Businesses in the Opening Decades of this Century

Though globalization picked up in the 1990s and gathered steam subsequently, the recession following the dotcom bust proved to be a setback to international businesses. Further, the 911 attacks proved to be another obstacle to the expansion of international businesses. The closing years of the first decade witnesses the 2008 Great Recession, which dealt a decisive blow to international businesses. In this gloomy scenario, the growth in the emerging markets was the

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silver lining for the international businesses, which was captured well by experts like Ruchir Sharma in his book, The Breakout Nations, who pointed out that western capital had no choice but to migrate to countries like India and China.

The Future Prospects of International Businesses in the Emerging Markets

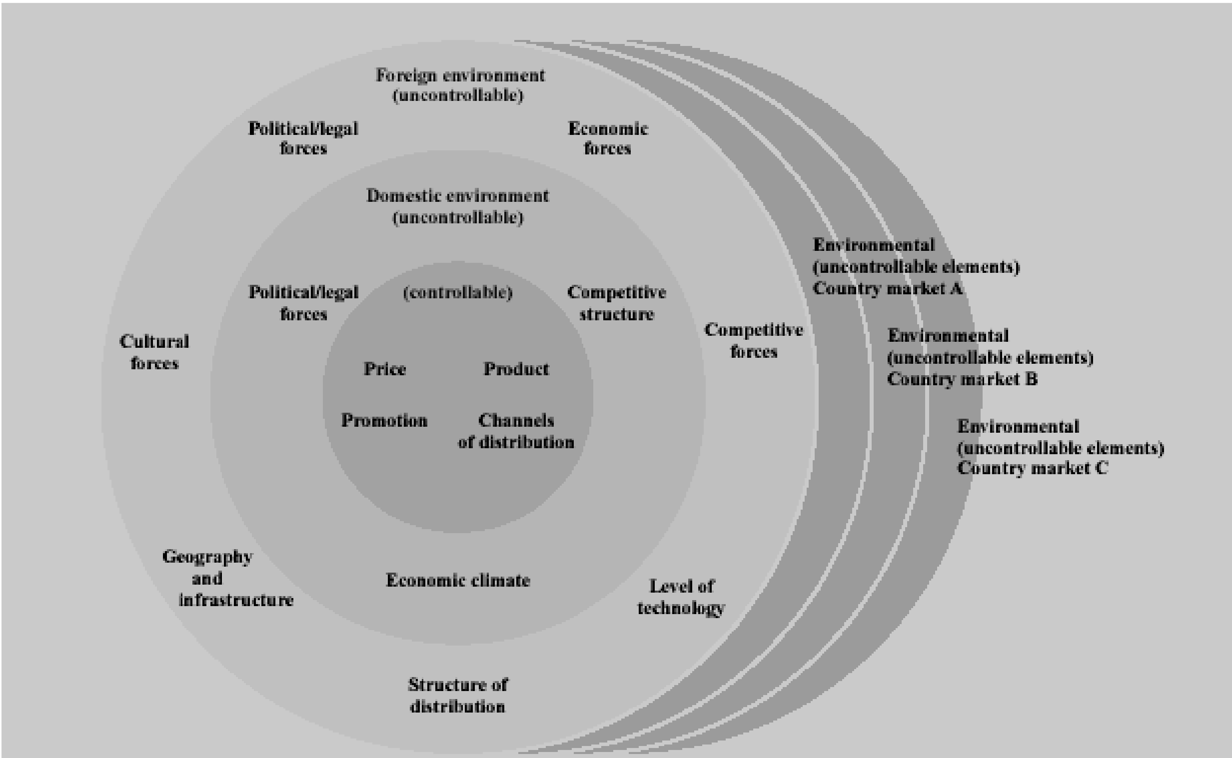
If we look into the future (though predicting the future is hazardous in these fast changing times) we find, the next frontier for international businesses is the tier two emerging economies like Vietnam, Ireland, and African countries. Without being too optimistic, it is clear that the growth in these markets would drive the expansion plans of international businesses. it is also clear that international businesses can leverage on the demographic dividend that these countries. To explain the term, the higher proportion of young people in the country's population is called the dividend that these countries get because of their demography. Hence, with so many young people joining the workforce, it is apparent that the emerging economies offer the best possible means of growth for the international businesses.

Finally, western multinationals have to contend with the international ambitions of emerging market companies as well. in recent years, there has been a trend wherein companies from India and China as well as Brazil and Russia have started to make rapid strides in their expansion plans overseas. Hence, it cannot be said that the flow of capital is unidirectional alone. In many ways, it can be said that the global economy is now at a stage where it is anybody's game and hence, the world is indeed flat for those with the innovative edge, hard work, and sustainable business models.

5.1 Driving Forces of International Business:

- Growth
- Profits
- Market Needs
- Technology
- Cost
- Quality
- Communications
- Transportations
- Leverage

Fig. 5 Nature of International Business



Source: International Business: by Rai Technology University, PP-07

6. Strategy in Emerging Markets:

6.1 Enter Low and Middle End Segments of the Market

It has been found that many multinationals find their sweet spot in emerging markets when they cater to the lower and the middle end of the market segments. In other words contrary to popular perception, multinationals find that selling to these segments is much better than focusing on the top segment alone. The experience of Japanese companies which focused on the top segment in many emerging markets and which found that they were not succeeding is a case in point. This led to the Japanese auto majors to target the lower and middle end of the market segments in many Asian countries including India where the Japanese carmakers have targeted these segments with good results.

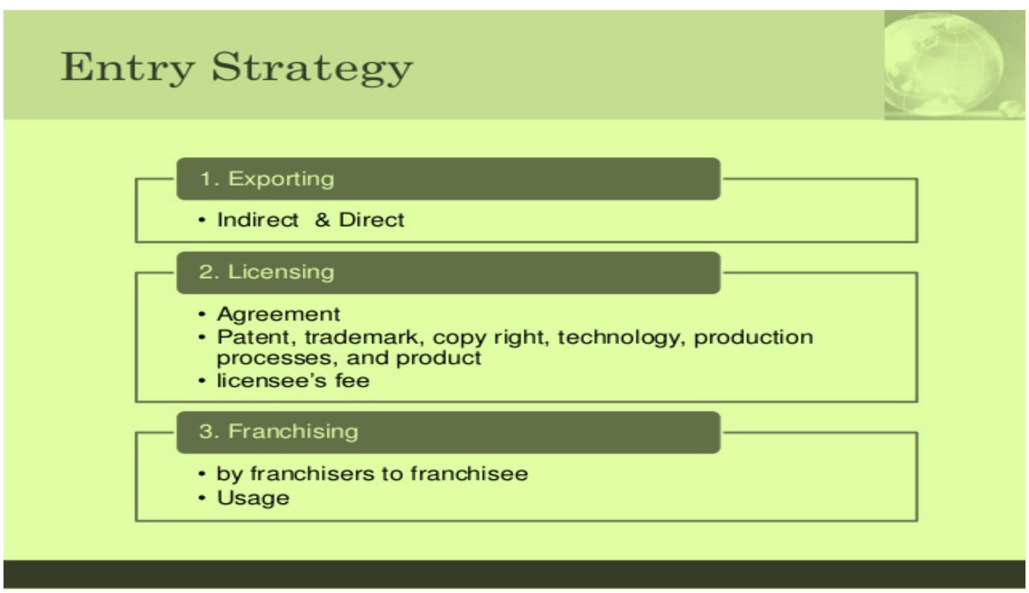
6.2 Take the Merger and Acquisition Route

Western multinationals are put off by the rigid bureaucracy and political interference in many emerging markets, which makes them reluctant to expand their operations. In this case, they can tie up with the local companies and enter into mergers or acquire local businesses. This makes sense because the senior management from the local companies would be conversant with the local bureaucracy and hence, their familiarity and knowledge can be tapped to deal with policy paralysis and the logjam that many emerging markets are going through in recent years. Another advantage of this strategy is that the multinationals can grow inorganically when organic growth is no longer possible or feasible.

6.3 Display Commitment and Send Senior Talent

Often it is the case that many multinationals do not take the emerging markets as seriously as they would take the developed countries. This means that they do not send high performers and senior executives to head their operations in these countries. The net result is that they face a lack of talent to steer their operations in these countries. Of course, the fact that working and living in emerging markets like India, Brazil, and Russia is difficult for many expatriates from the West. However, this should not deter them from displaying commitment. Talking about commitment, many multinationals lose interest in emerging markets within a couple of years especially when the returns are not up to their expectations. With political risk and societal barriers impeding their growth, many western multinationals pull out or sell their stakes. The key aspect here is that since the western multinationals have deep pockets, it makes sense to the stay the course for at least five years and hence the commitment apart from sending top-notch talent has to be actualized.

Fig. 6 Entry strategies of International Business



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7. Risks Faced by International Businesses in Developing Countries:

7.1 Political Instability

The recent case involving GMR Group in Maldives wherein the new government cancelled the license of the company for the Male Airport illustrates the biggest risk that international businesses face when they operate in developing countries. It is often the case that the change in government leads to a reevaluation of the contracts with the result that some of them are scrapped. This kind of approach must be avoided as international businesses operate under the assumption that the contractual obligations that they have entered with a particular government have to be honored by subsequent governments.

Added to this is the political instability in many developing countries like Nigeria where the continuous churn in the political landscape makes the operation of international businesses difficult. In other words, the policy paralysis and the bureaucratic logjam because of political instability pose the biggest risk to international businesses.

7.2 Economic Risk

The second category of risk that international businesses face is the prevailing economic structures in developing countries. For instance, many multinationals flocked to countries like Indonesia, Thailand, and Malaysia with great expectations. However, the Asian financial crisis of 1998 put paid to their economic activities because of the impact of the crisis on the economic structure of the country. Indeed, prudent economic management is the key aspect here. In these countries, due to the mismanagement of the economy, the economic crisis ensued and this led to capital flight from these countries.

The key point here is that international businesses must be prepared to sudden changes in the economic situation in developing countries since the economies of these countries are not as deep and resilient like those in the West. Of course, the recent global economic crisis affected the resilience of the West as well but that is another topic altogether.

7.3 Societal Risk

The third type of risk is societal which is to with the prevailing social situation in the developing countries. Because a certain section of the populace has benefited from the international businesses, the other sections feel left out and marginalized and they resort to pressurizing the government to include them in the developmental process. As some authors have put it, the world is on fire because of ethnic hostility to the operations of the international businesses. This was the case in many countries in Africa and East Asia where the minorities who lost out from the opening up of their economies resorted to social unrest and societal pressure to jeopardize the operations of the international businesses.

Moreover, this risk has metamorphosed into outright rejection of international businesses in many countries. The spree of nationalization and taking over the operations of international businesses in many countries across the world has made life difficult for international businesses in those countries.

8. What is Global Awareness?

Opportunities in global business abound for those who are prepared to confront myriad obstacles with optimism and a willingness to continue learning new ways. The successful Businessperson in the 21st century will have global awareness and have a frame of reference that goes beyond a region or even a country and encompasses the world.

To be globally aware is to have:

- **Objectivity;**
- **Tolerance of cultural differences;**
- **Knowledge of cultures, history, world market potential and global social, economic and political trends.**

8.1 How to build Global Awareness?

- Global awareness can and should be built in organizations using several approaches. The obvious strategy is to select individual managers specifically for their demonstrated global awareness.
- Global awareness can also be obtained through personal relationships in other countries. Indeed, market entry is very often facilitated through previously established social ties.
- Certainly, successful long-term business relationships with foreign customers often result in an organizational global awareness based on the series of interactions required by commerce.
- Foreign agents and partners can also help directly in this regard.
- But perhaps the most effective approach is to have a culturally diverse senior executive staff or board of directors. Unfortunately, American managers seem to see relatively less value in this last approach than managers in most other countries.

Fig. 7 Recent growth in International Business

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8.2 International Organisation responsible for recent growth in International Business

- World Bank
- WTO
- European Community (EC)
- North American Free Trade Agreement(NAFTA)
- Asian Free Trade Agreement(AFTA)
- GATT
- IMF

9. How to evaluate the foreign political risk and protect yourself from it?

The political ideology in the destination country, its ways of thinking and beliefs, its general economic health its attitude regarding corruption and its respect for private or intellectual foreign property can give rise to local government actions which constitute a major risk for the company. One of the major preoccupations of the company is to face political risk. To protect yourself, you must be able to evaluate it and adopt the following necessary measures:

• Evaluating the political risk;

• Evaluating the political risk in the destination country can be done in two ways, above all if the exportation is envisaged as a regular flow of business : first of all an analysis of the vulnerability of the company in relation to the target country, followed by analysis of the prospective environment of the destination country and the risk which it represents.

10. Conclusions:

Considering the fact that many third world countries are liberalizing and opening up their economies, there can be no better time than now for international businesses. This is balanced by the countervailing force of the ongoing economic crisis that has dealt a severe blow to the global economy. The third force that determines international businesses are that not only is the third world countries eager to welcome foreign investment, they seek to emulate the international businesses and become like them. Multinationals do not have a choice but to expand into emerging markets since growth in the developed world has crawled to around 2% whereas even the most underperforming emerging markets are reporting 5% growth. Hence, the strategies to be followed by multinationals include the combination of the strategies discussed above along with more focus on the next "Breakout Nations" like Vietnam, Algeria, and Mexico. It remains to be seen as to how well the western multinationals adapt to the local conditions in these countries. International businesses have to ensure that they have a set of operating procedures and norms that are sensitive to the local culture and customs and at the same time, they stick to their brand that has been developed for global markets. This is the challenge that we discussed earlier as "Glocal" orientation.

In conclusion, international businesses are facing the best of times and the worst of times at the same time and hence, the savvy and astute among them would succeed in this "Shift Age". International businesses face many risks when they operate in developing countries. It would suffice to state here that astute management and business friendly policies are needed from the governments of the developing countries if they are to attract foreign capital.

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