

International Business: Review & its Aspects

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ABSTRACT

International business encompasses to the trade of goods, services, resources, technology, capital and knowledge all across national boundaries and at a global or transnational level. It involves cross-border transactions of goods and services between two or more countries which include capital, skills, and technology for the purpose of the international production of physical goods and services such as finance, banking, insurance, and construction. International business can also be known as globalization. All countries need goods and services to satisfy the demand of their people. And Production of goods and services requires resources. Every country has limited resources and in today's global world with sudden change in taste, preference and other factors affecting demand one cannot produce all the goods and services that it requires. This opens the bracket for international business where buying and selling of goods and services from one nation to another takes place. Also countries sell their products to one another when the production of goods comes in surplus quantities than demanded in their own country.

Keywords - cross-border, transactions, trade, market, demand, globalization.

I INTRODUCTION

In today's world all business big or small are intend to expand their respective business globally. Which may involve purchase of raw material, assembling of product from component made in different countries, selling of products and services etc. in other countries. So in simple words International business can be understood as trade of goods, services, technology, capital, knowledge in the global market.

Definition of international business by authors-

~ "All business transactions private and governmental- that involve two or more countries. Undertake such transactions for profit, governments may or may not do same in their transactions."

- John D. Danels and Lee H. Redhbaugh

~ "International business involve commercial activities that cross national frontier."

-Roger Bennet

~ "International business can be defined as those business activities that involve the crossing of national boundaries."

-Taggaet and McDermott

Today we live in the world where the obstacles to the exchange of the goods and technologies have been reduced. The market at both national and international levels is going global. Multinational Companies like Coca-Cola, Samsung, KFC, Sony, Calvin Klein, McDonald's, Microsoft, Apple, etc., and their products are now reaching all over the world.

MNCs have a strong influence on the advancement of global trade. In this cross borders business, any country's government may get involved in transactions with another country's government or private sectors and vice versa. All firms that want to go international have one goal in common; the desire to increase their

respective economic values when engaging in international transactions. To accomplish this goal, each firm must develop its individual strategy and approach to maximize their value, lower the costs, and increase profits.

II FEATURES OF INTERNATIONAL BUSINESS

The features of international business are as follows-

- The operations in international business are conducted in larger scale. Production, marketing, advertising are done in wider scale.
- The market is dominated by developed countries and their MNCs. At present the top 10 multinational companies are from USA, Europe, Japan dominating the foreign trade. It is because of the fact that they have large finance and other resources. They also have world best technologies and research and development. They have highly skilled man power because they provide lump sum package and other benefits therefore they produce good quality products and services at low price.
- International business constitute the economies of many countries. It is because it uses finance from one country, labour from another country and infrastructure from another country. It design its product in one country and assembles in another. And sells it globally.
- IB provides benefits to all participating countries. Although developed countries get maximum benefits, developing nations also been benefited. They get foreign capital and technology, rapid industrial development, more employment opportunities. Which all combining results in economic development. Therefore developing countries are opening up their economies to open economic policies.
- As the world market is open for all it face keen competition. But the competition is between unlike partners i.e. developed and developing countries. Where developed countries have favorable position because of production of goods and services at low price. Developing countries face difficulties in facing competition.
- Due to the policies and strategies of many countries global market face many difficulties in inflow and outflow of capital, technologies and good. They have many trade blocks, foreign exchange restrictions etc. all this is harmful for international business.
- Science and technology plays a very important role in business for large scale production. International business provides lot of importance to science and technology. Developed countries use high technology so they dominate global market. And IB helps in transfer of high technology to developing countries.
- IB is sensitive in nature. Any change in technology, economic policies, political environment, foreign policies etc. has huge impact on it. Therefore continuous research and development and market study plays a very important role. Adjustment in business activities and adaptation accordingly is very important to survive.

III ADVANTAGES OF INTERNATIONAL BUSINESS

- There are products that don't sell well in the domestic market; in such case one may find greater demand abroad. So the products don't have to be dumped unsold inventory at deep discounts. Companies can search for new markets where their products can be sold for even higher prices than they are in domestic market. Also one can offer wider range of product when market globally.
- When you market to several countries, you can avoid several vulnerabilities. For example, if you sell some food product with high sugar content and your domestic market frowns over food with extra calories .then you may be able to sell the same product in another country where they have much different attitude toward that food product.

In addition, a natural disaster in any one country can disturb business in various ways, but it can be compensated by the businesses that are focusing their sales in different parts of the world as well.

- International business helps in learning new way of doing things when you do business globally. For example, to introduce their product in Indian market KFC, McDonalds changed their menu for vegetarian and non vegetarian both and also added spices to meet the taste of consumers.

IV UNDERSTANDING GLOBALISATION AS A DRIVING FORCE IN INTERNATIONAL BUSINESS

Globalization is a term used to describe how and technology have made the world into more connected and independent place. Globalization of the economy means removal of non tariff barriers and providing ease of doing business opportunities. It allows companies to raise capital abroad and grow beyond national boundaries and encourage export.

Main factors favoring Globalization

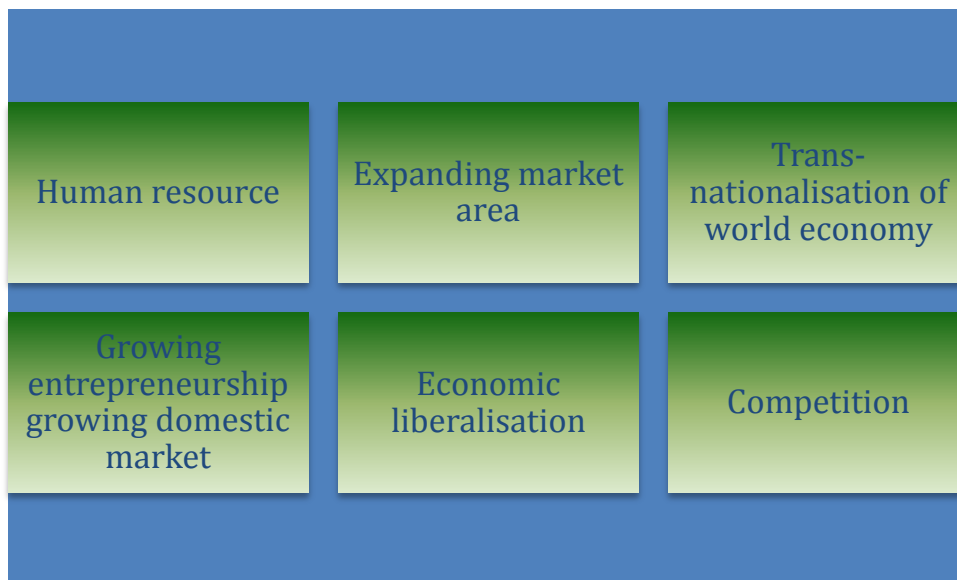


Figure 1

Globalization of business

More and more businesses are willing to internalize or internationalize their business for various reasons as follows -

- Developing markets has huge market potential.
- Many MNCs are locating their subsidiaries in developing countries to take advantage of low cost of production.
- Changing demographic also add to reducing risk factors.
- Regional trading blocs are added to pace of globalization WHO, EU, FTAA and MERCOSUR are major alliances among countries. Trading blocs seek to promote international business by removing trade and investment barriers.
- Declining trade and investment barriers have vastly contributed to globalization.
- The most powerful instrument that triggered globalization is technology.
- There is money in international business and no business wants to miss it.
- Finding resources at low cost is one of another reason for firms to go international.
- Globalization is triggered world bodies and institutions. WTO is the international organization that regulates and promotes business across nations. The main purpose of WTO is to help in free trade, help negotiate further opening of market, settle trade dispute between members.

Reason for International Business expansion



Figure 2

Globalization of Indian Business

Indian economic integration with the rest of the world was very limited because of its restricted economic policies followed till 1991. Indian firms confined themselves by dealing in domestic markets only. India witnessed a major economic shift after the adaptation of new economic policies in 1991. The government of India opened all of India's market to foreign investments. Globalization was initiated in various sectors. This has in fact become a buzz word with Indian firms now, and many are expanding their overseas business by different strategies.

Disadvantages of Globalization

- Globalization demands high skilled labor at a cheap rate. But countries where institutions are relatively weak are not capable of producing highly skilled workers. As a result, the unemployment rate is increasing in those countries.
- The balance of trade refers to the balance of values between a country's exported and imported goods and services. As a result of globalization, any country can trade with any part of the world. In some cases, developing countries are so much dependent on developed countries in terms of importing goods but their export capabilities are lower than imports. This puts them into trade deficits.
- The rapid increase in industrialization is due to globalization. Industrialization boosts economic growth but it adversely harms the environment. Pollution of water, deforestation, destruction of habitat, decreasing in soil quality, extraction of natural resources etc. are adversely affecting the environment.
- Another negative derivative of globalization includes culture, which is a major hold-back of globalization. The countries which are very protective of their culture provide huge grants to its development. As well as government frames restrictive policies for conservation of their culture which act as a barrier to international businesses.

Implication Of International Business

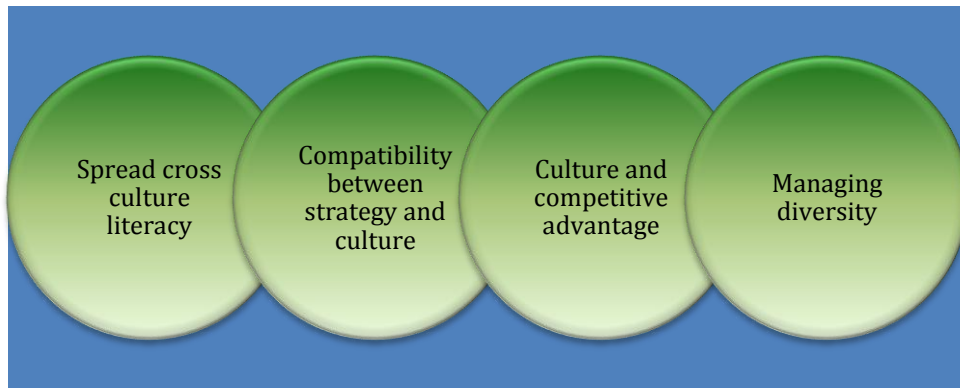


Figure 3

V TYPES OF INTERNATONAL BUSINESS

There are mainly four types of international business and they are mentioned as follows-

- *Exporting* - It is one of the first choice when manufacturers decides to expand globally. Exporting in simple words means selling beyond the geographical boundaries of the country, either directly to target customers or indirectly by retaining foreign sales agents or distributors. Either way, exporting has minimal impact on the company's human resource management because only a few of its employ are expected to be posted abroad.
- *Licensing*- This is another way of expanding business operation internationally. In case of international licensing there is an agreement whereby a licensor grants a foreign firm the rights to use its intellectual property for a particular span of time, in return of royalty.
- *Franchising*- franchising is closely related to licensing. It is an option in which a parent company grants another company the right to do business in a prescribed manner.
- *Foreign direct investment*- it refers to operations in one country that is controlled by entities in a foreign country. That means, it builds new facilities in other country. In India FDI means acquiring control by more than 74% of the operation.

VI INTERNATIONAL BUSINESS ENVIRONMENT

The environment of international business can be referred to the sum total of all the external forces influencing upon the working of the firm as performs its affairs in foreign and domestic market. The environment can be classified in terms of domestic, foreign, international sphere.

- *Domestic environment* - It is familiar to manage and consist of those unmanageable external forces that affect the firm in its home market.
- *Foreign environment*- It can be understood as to those factors in which MNCs operate in other countries
- *Cultural environment* - Culture consists of thought and behavior pattern that members of a society learn through language and other form of symbolic interaction. Their custom, habits, believes, common viewpoint binds them together as a social entity.
- *Economic environment*- it helps international businesses to predict how trends and events might affect performance of foreign business. It can be classified on the basis of income distribution and economical system of a certain economy.
- *International environment*- is considered as the interaction between domestic and foreign factors and covers the wide spectrum of forces, which are as follows -

- *Political environment*- it refers to influence of the system of government and judiciary of a nation on international business. the type and structure of government prevailing in the country decides, promotes, fosters, encourage, directs, and controls the policies for businesses in the country. A political system which is stable, honest, efficient, dynamic and ensures political participation of the people, also ensures the personnel security to the citizen is a primary factor for economic development.
- *Legal environment*- the legal system refers to the rules and regulations that regulate behavior of individual and organizations. Legal disputes can arise in between governments, between a firm and government, and between two firms. In such case measure taken are as follows-
 - 1) *Conciliation* - It means a non bonding agreement between parties to resolve disputes by asking third party to mediate can be perform.
 - 2) *Arbitration* -It is a practice for solving international commercial disputes. The usual arbitration procedure is for the parties involved to select a disinterested and inform parties as referee to determine the merits of the case and make a judgment that both parties agree to honor.
 - 3) *Litigation* – It is a wise course of action that could be seeks a settlement other than suing.

VII COMPARISION BETWEEN INTERNATIONAL BUSINESS & DOMESTIC MARKET

International business is different from domestic market because of various reasons-every country has their own currency system but in IB forces at least one party to covert its currency into another. –the legal system of the countries may be different forcing one or more countries to adjust their practices to comply with local law. –the culture of the countries may be different, forcing each party to adjust for meeting the expectation of the other. –due to geographical reason the distribution of resources differ from country to county, in that way the type of products produced may vary country to country

Country Attractiveness

It is a multidisciplinary concept at the cross road of development of economics, finance, comparative laws and political science. It aims at tracking and contrasting the relative appeal of different territories and jurisdiction competing for investment inflow, by scoring them quantitatively and qualitatively across variables such as growth rate, taxes, GDP etc.

There are multiple factors determining host country attractiveness in the eye of mega foreign direct investors. The perceived legal, political stability over time and medium term economic growth dynamics builds up a attractive foundation for the MNCs to invest in such country. Some of the other pragmatic points proven to be successful are:

Cost of Input	Market size	Corruption	Inflation Risk	Ethic Practices
Exchange Rate	Country Risk	Networks	Growth	Country Potential
Shareholders exposure	Location	Innovation index	Technology	Managerial Implication
Business Logic	Quality of demand	Resource Available	Operation Exposure	Infrastructure services available
Human resource available	Market Disruption Risk	Market and industry opportunities	Quality of industry competitive structure	Political, economical, legal system of the country

VII CONCLUSION

As by now, we come to know that international business has a wide range of activities undertaken by firms to gain access to foreign market. Also continues research and development, strategic policy making and its implementation require to survive in global market, which is uncertain in nature and involves high risk.

The concernment of international business is crucial for the growth and development of economy by generating employment, earning foreign currency and many more. It can be understood as follows:

- It promotes economic growth by promoting more trade entrepreneurial activities. It also provide job opportunities which helps in economic and individual development.
- In today's global era everything is conducted through machines or technology. And because of international business there is a continuous advancement made in technology, so that companies can speed up and improve in their activities.
- In international business there is always an economic interdependency between the nations which leads to better negotiation. Cooperation and communication between nations resolves disputes like trade policies, environment policies, custom duties etc.
- Another importance of international business is promotion and understanding of different cultures. Where people with different background culture interact, learn from one another and respect each other's culture.
- Resources are efficiently and effectively used when the extra goods exported to other countries after meeting the requirement of domestic market as per needs.
- In education, international business has opened a wide range of research. The recent trends toward globalization have made the study of international business even more important, and demand more research on how trade and foreign investment affect various parts of the world.

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