Mahatma Gandhi Vidyamandir's
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E-Content

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Unit-1 Introduction to International Business

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International Business

Introduction:-

The world has become a 'global village'. Business has expanded and is no longer restricted to the physical boundaries of a country.

Even countries which were self-reliant are now depending upon others for procurement of goods and services. They are also ready to supply the goods and services to developing countries. There is a change from self-reliance to dependence. This is because of the development of new modes of telecommunication and infrastructure facilities like faster and efficient means of transportation. They have brought countries closer to each other.

Besides development in technology, infrastructure and communication efforts of World Trade Organisation (WTO) and the reforms carried out by governments of different countries have also been a major reason for increasing commercial interactions among the countries.

India has been trading with other countries for a long time but now it has caught up in the process of globalisation in a big way and is integrating its economy with the world economy.

International business refers to those business activities that take place beyond the geographical limits of a country. It involves not only the international movements of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, knowhow and copyrights.

International Business – Meaning and Definitions:

International business refers to those business activities that take place beyond the geographical limits of a country.

"International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of the individuals, companies and organisations. These transactions take on various forms which are often interrelated."

– Michael R. Czinkota

"International business involves commercial activities that cross national frontiers"

– Roger Bennett

Thus, it involves not only the international movement of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, knowhow and copyrights etc.

It is a business which takes place outside the boundaries of a country, i.e., between two countries. It includes the international movements of goods and services, capital, personnel, technology and intellectual property rights like patents, trademarks and knowhow. It refers to the purchase and sale of goods and services beyond the geographical limits of a country.

International Business Nature and Scope:-

Nature:

1. International Business is much broader term than that of International Trade.
   International business includes:
   (a) Export and import of goods.
   (b) Export and import of services or intellectual property rights.
   (c) Licencing and franchising.
   (d) Foreign Investments including both direct investment and portfolio investments.

2. International Trade refers to only export and import of merchandise, i.e., goods only. It is also called visible trade. The goods are tangible, like machinery, gold, silver, electronic goods etc.

Scope:

(i) International Trade:

International business involves export and import of goods.

(ii) Export and Import of Services:

It is also called invisible trade. Items of invisible trade include tourism, transportation, communication, banking, warehousing, distribution and advertising.

(iii) Licensing and Franchising:

Licensing is a contractual agreement in which one firm (the licensor) grants access to its patents, copyrights, trademarks or technology to another firm in a foreign country (the licensee) for a fee called royalty. It is under the licensing system that Pepsi and Coca Cola are produced and sold all over the world.

Franchising is also similar to licensing, but it is a term used in connection with the provision of services. For example, McDonald's operates fast food restaurants all over the world through its franchising system.

(iv) Foreign Investments:

It involves investments of funds abroad in exchange for financial return.

Foreign investments can be of two types:

(a) Foreign Direct Investment (FDI) – Investment in properties such as plant and machinery in foreign countries with a view to undertaking production and marketing of goods and services in those countries.

(b) Portfolio Investment – Investments in shares or debentures of foreign companies with a view to earn income by way of dividends or interest.

Globalization

Definition of Globalization

- Globalization is defined as the increasing process of interdependence and interconnected between different political, social and economic components of the world. It is the way in which the world is seen as the global village.
- Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner.
- The process by which businesses or other organizations develop international influence or start operating on an international scale

Advantages of Globalization

1.Employment

Considered as one of the most crucial advantages, globalization has led to the generation of numerous employment opportunities. Companies are moving towards the developing countries to acquire labor force. This obviously caters to employment and income generation to the people in the host country. Also, the migration of people, which has become easier has led to better jobs opportunities.

2. Free Movement of Labour

Increased labour migration gives advantages to both workers and recipient countries. If a country experiences high unemployment, there are increased opportunities to look for work elsewhere. This process of labour migration also helps reduce geographical inequality. This has been quite effective in the EU, with many Eastern European workers migrating west.Also, it helps countries with labour shortages fill important posts. For example. the UK needed to recruit nurses from the far east to fill shortages. However, this issue is also quite controversial. Some are concerned that free movement of labour can cause excess pressure on housing and social services in some countries. Countries like the US have responded to this process by actively trying to prevent migrants from other countries.

3. Education

A very critical advantage that has aided the population is the spread of education. With numerous educational institutions around the globe, one can move out from the home country for better opportunities elsewhere. Thus, integrating with different cultures, meeting and learning from various people through the medium of education is all due to globalization. Developing countries or labour- intensive countries have benefited the most.

4. Product Quality

The onset of international trade has given rise to intense competition in the markets. No longer does one find limited number of commodities available. A particular commodity may fetch hundreds of options with different prices. The product quality has been enhanced so as to retain the customers.

Today the customers may compromise with the price range but not with the quality of the product Low or poor quality can adversely affect consumer satisfaction.

5. Cheaper Prices

Globalization has brought in fierce competition in the markets. Since there are varied products to select from, the producer can sustain only when the product is competitively priced. There is every possibility that a customer may switch over to another producer if the product is priced exorbitantly. ‘Customer is the King’, and hence can dictate the terms to a very large extent. Therefore, affordable pricing has benefited the consumer in a great way.

6. Free Movement of Capital

Capital, the backbone of every economy, is of prime importance for the proper functioning of the economy. Today. transferring money through banks is possible just by the click of a button, all due to the electronic transfer that has made life very comfortable. Many huge firms are investing in the developing countries by setting up industrial units outside their home country. This leads to Foreign Direct Investment, which helps in promoting economic growth in the host country.

7. Communication

Information technology has played a vital role in bringing the countries closer in terms of communication. Every single information is easily accessible from almost every corner of the world. Circulation of information is no longer a tedious task, and can happen in seconds. The Internet has significantly affected the global economy, thereby providing direct access to information and products.

8. Transportation

Considered as the wheel of every business organization, connectivity to various parts of the world is no more a serious problem. Today with various modes of transportation available, one can conveniently deliver the products to a customer located at any part of the world. Besides, other infrastructural facilities like, distribution, supply chain, and logistics have become extremely efficient and fast.

9. International Trade

Purchase and sale of commodities are not the only two transactions involved in international trade.

Today, international trade has broadened its horizon with the help of business process outsourcing.

Sometimes in order to concentrate on a particular segment of business it is a practice to outsource certain services. Some countries practice free trade with minimal restrictions on EXIM (export-import) policies. This has proved beneficial to businesses.

Challenges of Globalism for Business

Along with arguments supporting the benefits of a more globally connected economy, critics question the ethics and long-term feasibility of profits captured through global expansion. Some argue that the expansion of global trade creates unfair exchanges between larger and smaller economies. They argue that MNCs and industrialized economies capture significantly more value because they have more financial leverage and can dictate advantageous terms of exchange, which end up victimizing developing nations. Critics also raise concerns about damage to the environment, decreased food safety, unethical labor practices in sweatshops, increased consumerism, and the weakening of traditional cultural values.

As MNCs do business in new global markets, they may encounter several significant challenges:

Ethical Business Practices: Arguably the most substantial of the challenges faced by MNCs, ethical business practices in areas such as labor, product safety, environmental stewardship, corruption, and regulatory compliance have historically played a dramatic role in the success or failure of global players. For example, Nike’s brand image was hugely damaged by reports that it utilized sweatshops and low-wage workers in developing countries. In some nations, particularly those without a strong rule of law, bribing public officials (e.g., paying them off with gifts or money) is relatively common by those seeking favorable business terms. Although national and international laws exist to crack down on bribery and corruption, some businesspeople and organizations are pressured to go along with locally accepted practices. Maintaining the highest ethical standards while operating in any nation is an important consideration for all MNCs.

Organizational Structure: Another significant hurdle is the ability to efficiently and effectively incorporate new regions within the value chain and corporate structure. International expansion requires enormous capital investments in many cases, along with the development of a specific strategic business unit (SBU) in order to manage these accounts and operations. Finding a way to capture value despite this fixed organizational investment is an important initiative for global corporations.

Public Relations: Public image and branding are critical components of most businesses. Building this public relations potential in a new geographic region is an enormous challenge, both in effectively localizing the message and in the capital expenditures necessary to create momentum.

Leadership: It can be difficult for businesses to find effective organizational leadership with the appropriate knowledge and skills to approach a given geographic market successfully. For every geography worldwide, unique sets of strategies and approaches apply to language, culture, business networks, management style, and so forth. Attracting talented managers with high intercultural competence is a critical step in developing an effective global strategy.

Legal and Regulatory Structure: Every nation has unique laws and regulations governing business. MNCs need access to legal expertise to help them understand in-country laws and comply with applicable regulations. It is important for businesses to understand the legal and regulatory climate for their industry and type of organization before entering a new market, so that this information can be factored into the business case and strategic decisions about where and how to expand globally, as well as strategic and operational planning to ensure profitability.