

International Business Management

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MGM 506

Lecture 1



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The Management of International Business

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Learning objectives

- **EVOLUTION OF INTERNATIONAL BUSINESS**
 - **The Changing Profile of the Global Business Environment**
- **CHARACTERISTIC FEATURES OF INTERNATIONAL BUSINESS.**
- **FACTORS AFFECTING INTERNATIONAL BUSINESS**
- **Changing Scenario of International Business**

Introduction

- we are in the midst of a transition period in which economic competition and international business are the new arenas for international rivalry.
- International business is the instrument, multinational companies (MNCs) are the force, and international managers are the strategists with which nations attempt to gain a competitive advantage.
- In such an environment, it is vital for us to understand and learn how to manage international business.

- The beverages you drink might be produced in India, but with the collaboration of a USA company.
- The tea you drink is prepared from the tea powder produced in Sri Lanka.
- The spares and hard-disk of the computer you operate might have been produced in the United States of America.
- The television you watch might have been produced with the Japanese technology.
- The shoes you wear might have been produced in Taiwan, but remarketed by an Italian company.

- You get all these even without visiting or knowing the country of the company where they are produced.
- All these activities have become a reality due to the operations and activities of international business.
- **Thus, international business is the process of focusing on the resources of the globe and objectives of the organizations on global business opportunities and threats, in order to produce, buy, sell or exchange of goods/services world-wide**

EVOLUTION OF INTERNATIONAL BUSINESS

- The origin of international business goes back to human civilization. Historically periods of greater openness to trade have been characterized by stronger but lopsided global growth.
- The concept of international business-a broader concept relating to the integration of economies and societies, dates back to the 19th century. The first phase of globalization began around 1870 and ended with the World War I (1914) driven by the industrial revolution in UK, Germany and USA.

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.

- 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 Lever Limited (HLL). HLL produces its products in India and markets them in Bangladesh, Sri Lanka, Nepal etc.

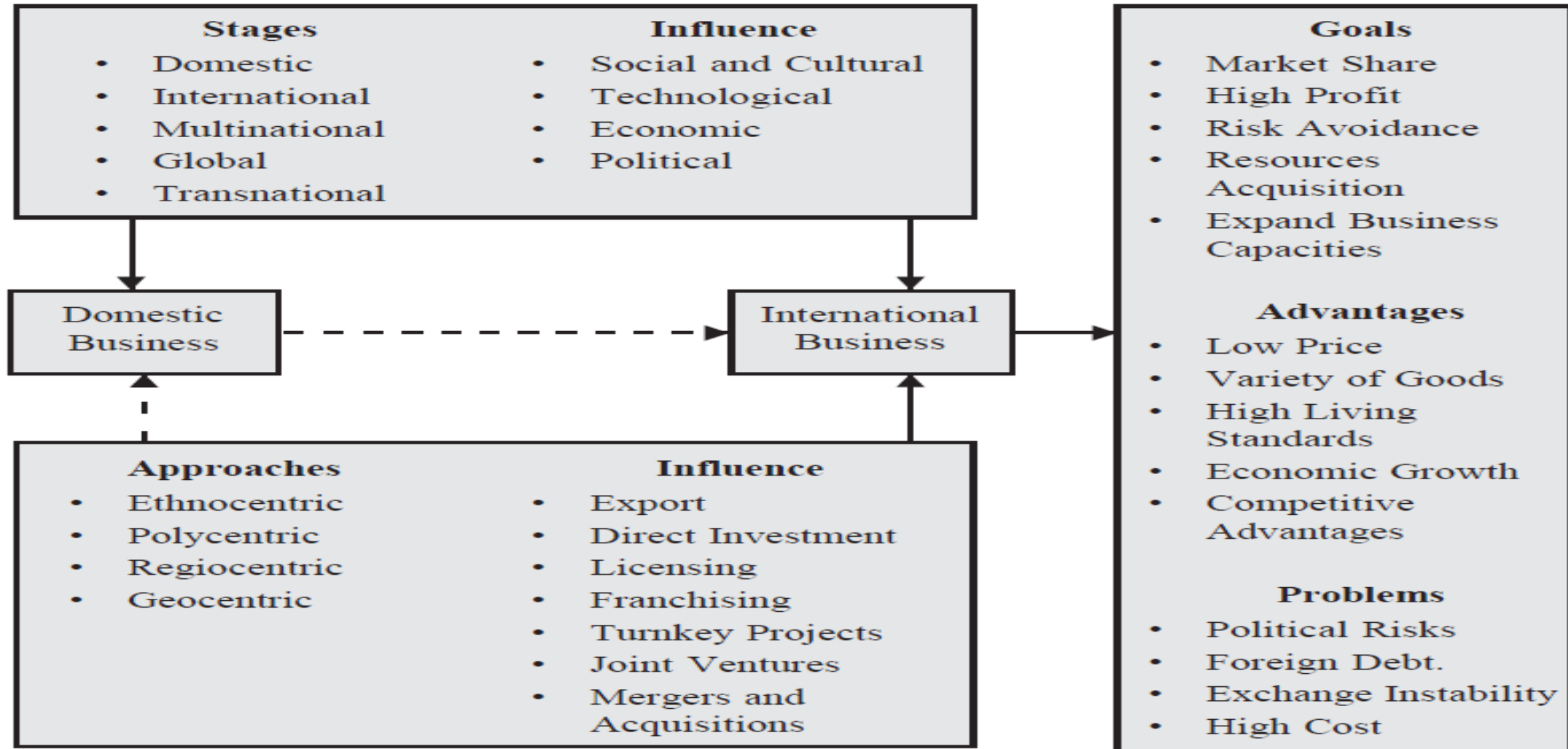


Fig. 1.1 : International Business Model

- There are many factors that increase the impact of international business, and consequently the role of MNCs, in our lives.
- The increased volume of international business heightens the importance of international management. The world economy is moving ever faster to a highly interrelated, interdependent state, in which no nation will be immune from the forces of the global market.
- In such an environment, it is vitally important that we know how to manage international business operations.

factors underline the significance of international business

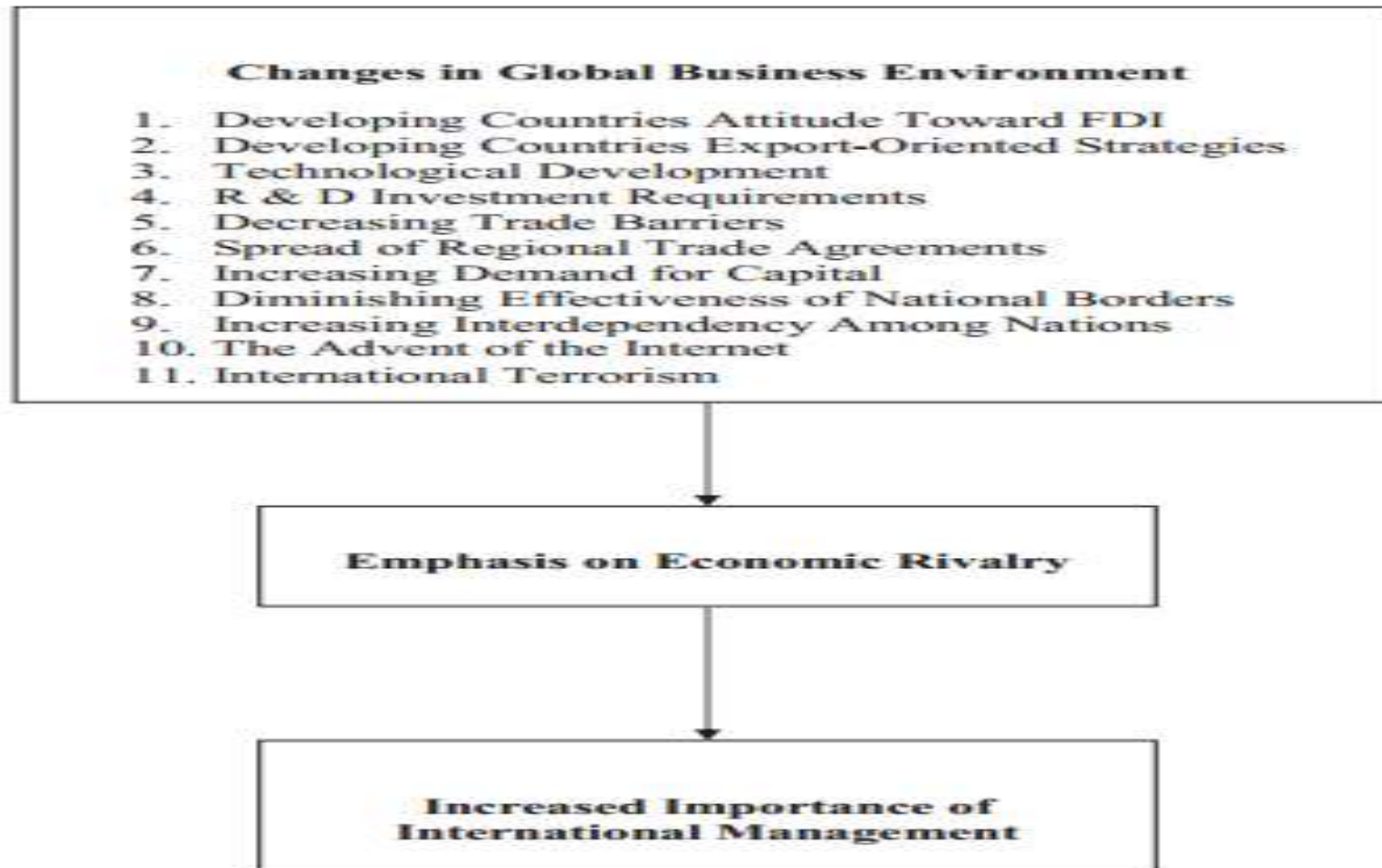


Fig. 1.1 The changing profile of global business

Decreased Trade Barriers

- The tendency of most countries is to strive for free world trade and the removal of trade barriers.
- A very good indication of this tendency is the expansion of world trade.
- for both exports (a) and imports (b) of goods and services and a decrease in the average tariff rate of all products including agricultural and nonagricultural products.

- The supporters of free trade believe that free world trade is vital to their economic prosperity.
- Since World War II, countries that have been more open to international business and free trade have grown faster than countries that were less open to the global economy.
- Some, however, would like to take advantage of the open markets of other countries without reciprocating and allowing others free access to their domestic markets. A few have been fairly successful in such practices.

- The imposition of trade and nontrade restrictions has created friction among the European countries, Japan, and the United States.
- The handling of such friction, however, suggests the willingness of all to solve these problems in a mutually acceptable and amicable manner.
- Of course, totally free world trade will not arrive overnight. But there is an inexorable movement toward the removal of most trade restrictions and barriers.

- Certain transitory arrangements are already developing. For example, Europe has created an integrated economic and monetary system. Integrated Europe could produce a market larger than the United States. The United States, Canada, and Mexico have created the North America Free Trade Agreement (NAFTA), which removes most of the trade restrictions among them and creates the largest free trade bloc
- A free trade agreement between the United States and the Central American countries (CAFTA) was signed. Members of the CAFTA are the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. Similar events may occur in the Australasia region.

Technological Developments:

- Recent technological developments, particularly in manufacturing, have altered the nature of international business.
- Robotics, computer-aided design (CAD), computer-aided manufacturing (CAM), and flexible manufacturing have reduced production costs for most products. These technologies have also reduced the labor component of some products.
- As a result, the low-labor-cost position is less effective as a competitive strategy. Therefore, we expect that the low-labor-cost countries would try to tap MNCs for technology transfer and attempt to move up the supply chain.

Diminishing Effectiveness of National Borders:

Declining Trade Barriers

- Another significant driver of globalisation is the declining trade barriers.
- International trade occurs when the goods flow across the countries. Governments used to impose trade barriers like quotas and tariffs in order to protect domestic business from the competition of international business. Advanced countries after World War II agreed to reduce tariffs in order to encourage free flow of goods
- For example, a number of Americans with dual citizenship have served in the governments of Armenia, former Yugoslavia, and Estonia.

Investment Requirement in R&D:

- The enormous investment required in new technologies and in research and development (R&D) and the increasing scale of economies needed for an optimum operation are compelling firms to consider the whole world as a market.
- In many industries, even the largest and most resourceful firms cannot afford the enormous investment required in today's research and development and new technologies.
- For example, the estimated \$1 billion needed to develop a new generation of dynamic random access memory chips (DRAMs) forced IBM to form a joint venture with Toshiba Corporation of Japan and Siemens AG of Germany.

Increasing Interdependence Among Nations:

- International linkages among countries are creating a higher degree of interdependency, characterized by the increasing volume of FDI.
- The total volume of FDI inflows (i.e., world) has grown dramatically since the 1980s, particularly in developed economies (e.g., the United States, Canada, and Europe). recently during the 2010s, the volume of FDI inflows in developing/transition economies such as BRICS (Brazil, Russian Federation, India, China, and South Africa) has also increased.

- Most of you have the experience of browsing internet and visiting different web sites, knowing the products and services offered by various companies across the globe.
- Some of you might have the experience of even ordering and buying the products through internet.
- This process gives you the opportunity of transacting in the international business arena without visiting or knowing the various countries and companies across the globe.

The Effect of the Internet:

- In addition to the nine factors already discussed, the development and widespread use of the Internet is a force that greatly influences internationalization of business activities.
- The advent of the Internet is akin to a revolution. It has permeated many aspects of our lives in ways no one could have anticipated.
- It has affected many business practices, transformed some, and created new ones.

The Internet affects international business in the following ways:

1. It increases global commonality in consumer needs and tastes. This, in turn, makes it possible for MNCs to use more global strategies through offering standardized products and services.
 - This is possible because the appeal of globally recognized brands will increase as a result of the worldwide use of the Internet. At the same time, it creates more opportunities for less recognized products and companies in international markets.
 - Dell Computer, for example, by shifting its marketing and sales efforts to the Web, transformed itself from a contender to a leader in the personal computer industry.

2. It enables MNCs to centralize or coordinate their purchasing globally. In effect, it provides the opportunity to MNCs to become global customers.

- At the same time, it allows regional firms such as United Parcel Service and DHL to grow faster.
- Before the advent of the Internet and the Web, globally centralized purchasing required complex, expensive paper-based coordination of dispersed subsidiaries and suppliers. In the case of the Internet, more efficient global sourcing is possible.

3. It reduces the minimum efficient size of the operation. Many physical activities are replaced by Web-based virtual activities.

- And it has become even more efficient in multitasking and operating large-scale businesses, because the Internet and its technologies are now used in conjunction with AI (artificial intelligence).
- By creating an online/cyber marketplace and having e-commerce platforms, companies like [E-bay.com](https://www.ebay.com) and [Amazon.com](https://www.amazon.com) were able to quickly expand their business operation globally. And some of the tasks (e.g., customer service) are being done by AI alleviating the need to use human labors.

Why Do Businesses Expand Their Operations Abroad?

- International competition affects most businesses and results in the globalization of many industries.
- The unprecedented information explosion has greatly contributed to international competition. Technological developments have also reduced transportation costs.
- Consequently, the physical distance between producers and consumers is no longer much of a competitive hindrance.
- Domestic firms with unique products or services, or with a competitive advantage, can expand beyond their home market easily.

- In today's environment, going international is either an extension of successful domestic business operations or a requirement for remaining competitive.
- Increased worldwide interdependencies, if continued at the present pace, would make internationalization a requisite for survival.
- Until that time, many organizations operate at national and international levels as if these two were totally independent

- Conducting and managing international business operations is a crucial venture due to variations in political, social, cultural and economic factors, from one country to another country.
- For example, most of the African consumers prefer less costly products due to their poor economic conditions, whereas the German consumers prefer high quality and high priced products due to their higher ability to buy

- Therefore, the international businessman should produce and export less costly products to most of the African countries and vice versa to most of the European and North American countries.
- High priced and high quality Palmolive soaps are marketed in European countries and the economy priced Palmolive soaps are exported and marketed in developing countries like Ethiopia, Pakistan, Kenya, India, Cambodia etc.

- **Accurate Information:** International business houses need accurate information to make an appropriate decision.e.g Bata based on the accurate data could make appropriate decision to enter various European countries.
- **Timely Information:** International business houses need not only accurate but timely information. Coca-Cola could enter the European market based on the timely information, whereas Pepsi entered later.
- Another example is the timely entrance of Indian software companies into the US market compared to those of other countries. Indian software companies also made timely decision in the case of Europe

Size of the Business: The size of the international business should be large in order to have impact on the foreign economies. In fact, the capital of some of the MNCs is greater than our annual budget and GDPs of the some of the African countries.

Market Segmentation: Most of the international business houses segment their markets based on the geographic market segmentation. Daewoo segmented its market as North America, Europe, Africa, Indian subcontinent and Pacific markets

Potentiality of Markets

- International markets present more potentials than the domestic markets.
- This is due to the fact that international markets are wide in scope, varied in consumer tastes, preferences and purchasing abilities, size of the population.
- For example, the IBM's sales are more in foreign countries than in USA. Similarly, Coca-Cola's sales, Procter and Gamble's sales are more in foreign countries than in their respective home countries

Wider Scope :

- Foreign trade refers to the flow of goods across national political borders. Therefore, it refers to exporting and importing by international marketing companies plus creation of demand, promotion, pricing etc.
- As stated earlier, international business is much broader in its scope. It involves international marketing, international investments, management of foreign exchange

The scenario of international business has been changing at a fast rate after 1990s. Many factors contributed to the changing scenario of international business.

These factors include:

- Globalization of various economies including the former communist countries and socialist pattern of societies,
- Establishment of World Trade Organization on 1st January 1995 in the place of General Agreements on Trade and Tariffs,

- Information technology revolution and its wider applications to business across the globe,
- Higher growth rate of transport technology and consequent reduction in cost , increase in speed and efficiency,
- Increased globalization of culture
- Increase in educational opportunities and career-orientation among the people of developing countries particularly China and India

- Enlargement of European Union from 15 members to 25 members
- Higher growth rate of GDP of China, India, South Korea, Singapore, Malaysia, Thailand, Brazil and Mexico.
- Spread of production activities of multinational companies in the newly globalized economies in addition to the developed economies,
- Increase in business alliances in degree and variety like alliances, joint ventures, mergers, amalgamations and takeovers,

Scenario1 : Domestic Company

- Domestic company limits its operations, mission and vision to the national political boundaries. This company focuses its view on the domestic market opportunities, domestic suppliers, domestic financial companies, domestic customers etc.
- These companies analyse the national environment of the country, formulate the strategies to exploit the opportunities offered by the environment

.The domestic companies. unconscious motto is that, .

- ***if it is not happening in the home country, it is not happening..***
- The domestic company never thinks of growing globally. If it grows, beyond its present capacity, the company selects the diversification strategy of entering into new domestic markets, new products, technology etc.
- The domestic company does not select the strategy of expansion/penetrating into the international markets.

Scenario 2 : International Company

- Some of the domestic companies, which grow beyond their production and/or domestic marketing capacities, think of internationalizing their operations.
- Those companies who decide to exploit the opportunities outside the domestic country are the stage two companies.
- These companies remain ethnocentric or domestic country oriented. These companies believe that the practices adopted in domestic business, the people and products of domestic business are superior to those of other countries.
- The focus of these companies is domestic but extends the wings to the foreign countries.

- These companies select the strategy of locating a branch in the foreign markets and extend the same domestic operations into foreign markets.
- In other words, these companies extend the domestic product, domestic price, promotion and other business practices to the foreign markets.
- Normally internationalisation process of most of the global companies starts with this stage two process. Most of the companies follow this strategy due to limited resources and also to learn from the foreign markets gradually before becoming a global company without much risk.

Scenario 3 : Multinational Company

- Sooner or later, the international companies learn that the extension strategy (*i.e.*, extending the domestic product, price and promotion to foreign markets) will not work.
- The best example is that Toyota exported Toyopet cars produced for Japan in Japan to the USA in 1957. Toyopet was not successful in the USA.

- Toyota could not sell these cars in the USA as they were over priced, underpowered and built like tanks. Thus, these cars were not suitable for the US markets. The unsold cars were shipped back to Japan.
- Toyota took this failure as a rich learning experience and as a source of invaluable intelligence but not as failure. Toyota based on this experience designed new models of cars suitable for the US market.
- The international companies turn into multinational companies when they start responding to the specific needs of the different country markets regarding product, price and promotion.

- This stage of multinational company is also referred to as *multidomestic*. Multidomestic company formulates different strategies for different markets; thus, the orientation shifts from *ethnocentric* to *polycentric*.
- Under polycentric orientation the offices/branches/subsidiaries of a multinational company work like domestic company in each country where they operate with distinct policies and strategies suitable to the country concerned.
- Thus, they operate like a domestic company of the country concerned in each of their markets.

Scenario4: Global Company

- A global company is the one, which has either global marketing strategy or a global strategy.
- Global company either produces in home country or in a single country and focuses on marketing these products globally, or produces the products globally and focuses on marketing these products domestically.

Harley designs and produces super heavy weight motorcycles in the USA and markets in the global market.

Scenario-5: Transnational Company

- Transnational company produces, markets, invests and operates across the world. It is an integrated global enterprise that links global resources with global markets at profit.
- There is no pure transnational corporation. However, most of the transnational companies satisfy many of the characteristics of a global corporation.

For example, Coca-Cola, Pepsi-Cola etc.

- **Geocentric Orientation:** A transnational company is geocentric in its orientation. This company thinks globally and acts locally. This company adopts global strategy but allows value addition to the customer of a domestic country. This company allows adaptation to add value to its global offer.
- **Scanning or Information Acquisition:** Transnational companies collect the data and information worldwide. These companies scan the environmental information regarding economic environment, political environment, social and cultural environment and technological environment. These companies collect and scan the information regardless of geographical and national boundaries

TABLE 1.1 SCENARIOS OF INTERNATIONAL BUSINESS

<i>Stage and Company</i>	<i>1 Domestic</i>	<i>2 International</i>	<i>3 Multidomestic</i>	<i>4 Global</i>	<i>5 Transnational</i>
Strategy Model	Domestic N.A.	International Co-ordinated Federation	Multidomestic Decentralized Federation	Global Centralized Hub	Global Integrated Network
View of World Markets	Home Country Markets	Extension or Resources	National and Resources	Global Markets	Global Markets
Orientation	Ethnocentric	Ethnocentric	Polycentric	Mixed	Geocentric
Key Assets	Located in Home Country	Core centralized, others dispersed	Decentralized and self-sufficient	All in home country except marketing or sourcing	Dispersed Interdependent and specialized
Role of Country Units	Single Country	Adapting and leveraging competencies	Exploiting local opportunities	Marketing or sourcing	Contributions to company worldwide
Knowledge	Home Country	Created at centre and transferred	Retained within operating units	Marketing developed jointly and shared	All functions developed jointly and shared.

Resources:

- **Kamal Fatehi & Jeongho Choi**

International Business Management Succeeding in a Culturally Diverse World, Second Edition

- **Dr. P. SUBBA RAO**

International Business Environment. Second Edition



Thank You